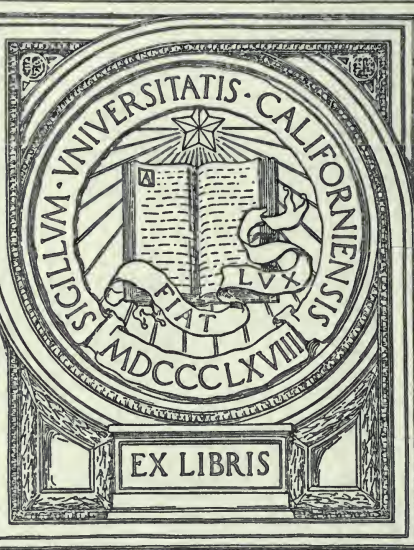


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# REPORT OF THE PROCEEDINGS OF THE INTERNATIONAL FREE TRADE CONFERENCE

*LONDON, OCTOBER, 1920*

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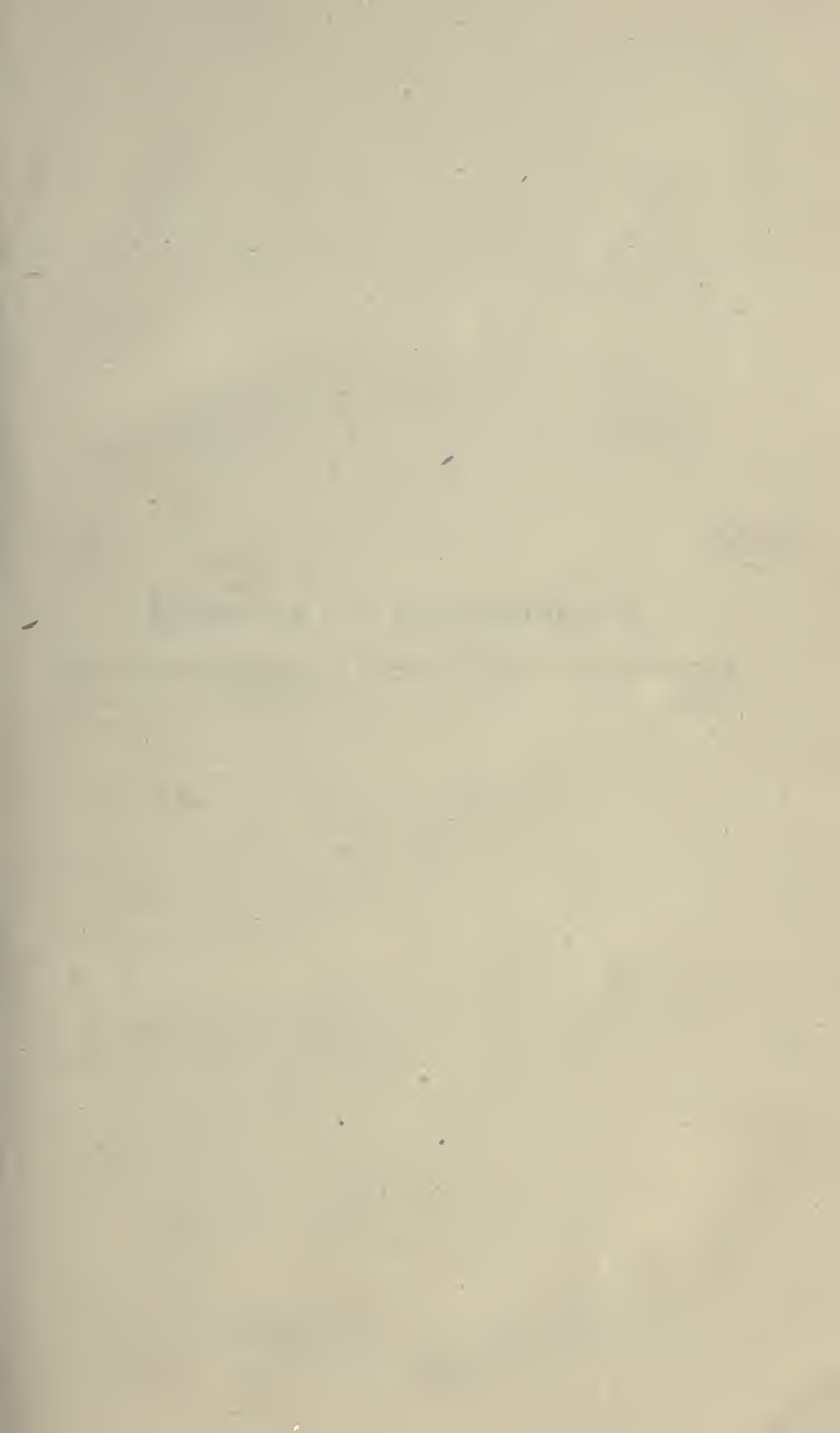
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The Journal of the  
Board of the University of

# Report of the Proceedings of The International Free Trade Conference

*London, October, 1920*



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1921

Report of the Proceedings of  
The International  
Trade Conference

London, 1908



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## PREFACE

THE International Free Trade Conference of 1920 was called together on the invitation of a Committee of British Organisations, consisting of representatives of the Cobden Club, the Free Trade Union, the Scottish and the North-Western Counties Free Trade Unions, and the Midland and North of England Free Trade Leagues. It was hastily summoned on account of the urgent need for a pronouncement of Free Trade opinion on the economic crisis through which the world is now passing.

In spite of the unavoidably short notice, Free Traders from many lands responded readily to the invitation, and as will be seen by the list of members printed in this book, the Conference was fully representative of the International Free Trade Movement. Equally gratifying were the number and quality of the papers sent in and the general interest taken in the Conference. Prominence was given to the discussions by the Press, to which, notably to the *Westminster Gazette*, the thanks of the Conference Committee are due, while reports and comments on the proceedings of the Conference have appeared in numbers of Continental newspapers.

We believe, therefore, that the Conference has fully realised its primary object—an advertisement to the world of the Free Trader's answer to the international economic problems of the day. A record of the proceedings of the Conference, then, cannot fail to have permanent interest for Free Traders, and it has been decided to publish the papers contributed to the debates in book form. Unfortunately it is not possible to include the many valuable

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## PREFACE

speeches contributed to the discussions, and we are obliged to confine ourselves strictly to the papers specially written for the Conference, and to summaries of the introductory speeches given by the various chairmen. Limitations of space also prevent anything but a reference to the interesting speeches made at the Hotel Cecil dinner, to which the foreign members of the Conference were invited by the British Committee.

In conclusion, we have to thank those who so kindly helped us in entertaining the foreign visitors to the Conference. To their kindness it is largely due that our foreign friends seem to have enjoyed their visit. Lord and Lady Pentland gave the proceedings an admirable start by entertaining all the members at their house in London. The very possibility of holding such a Conference, especially at such a time of international strain, serves to show the value of the Free Trade idea in bringing the peoples of the earth into more friendly relationship and realising the ideal of the Cobden Club, goodwill and peace among the nations.

After the Conference was over, the following letter was issued by the officers of the Cobden Club to the Press :

"At the close of the International Free Trade Conference, we wish to express our gratitude to the Press for the admirable and full reports given of its proceedings. We feel assured that through the very full account of the discussions given in the British Press, the significant fact that it has been possible in these times of national and industrial stress to gather such an assembly of men and women representing fifteen nations, and of many opinions on other hotly debated questions, in amicable discussion, as well as the matter contained in the various speeches given, will become widely known at home and abroad.

"We would like, however, to draw yet further attention



## PREFACE

to what is involved in the very fact that such a Conference is possible. That this is the case marks as clearly as anything could the moral difference between Free Trade and Protection. When the Protectionists of all lands can meet and discuss their proposals in a like spirit, and with a like result, they too may have a message for a world weary of conflict. Free Traders may safely challenge their opponents to hold one. And as it would be impossible to arrive at harmony in an International Conference of Protectionists, so we can never arrive at International friendship in a world governed by Protectionist ideas. It is Free Trade and not Protection that makes for the healing of the world's wounds; Protection can only irritate and extend them.—Yours, etc.,

“SHEFFIELD, *Chairman*,

“T. FISHER UNWIN, *Treasurer*,

“J. A. MURRAY MACDONALD, *Hon. Secretary*,

“F. J. SHAW, *Secretary*.”



# International Free Trade Conference

*London, October, 1920*

---

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Kirkland, A. M.

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Hertz, Dr. Friedrich, Hofrat,  
Writer on Economic Questions.  
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facturer.

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national Organisation of In-  
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pojen Keskuskunta R.L.  
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## **FIRST SESSION**

*Tuesday, October 5*



# International Free Trade Conference

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## REPORT OF PROCEEDINGS

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FIRST SESSION - TUESDAY, OCTOBER 5

*Chairman*—LORD BEAUCHAMP

*SUBJECT :*

**The World's Existing Economic Position: How far can it be remedied by Free Trade?**

THE CHAIRMAN said : It is my first duty to offer to all the delegates, whether from this or foreign countries, a very hearty welcome to this Conference on behalf of the Cobden Club. You will, I am sure, agree with me that the Cobden Club were well advised in calling a Conference at this time, when we are beginning to feel the full effects of the chaos which fell upon the world with the declaration of war in August, 1914. To-day there is everywhere a shortage of commodities. There are some States which have too much; there are a great many States which have not got enough to export. There has been a complete collapse in the method of exchange : this can only be put right by a very much extended exchange of goods. There are six

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heads under which the topics for discussion have been distributed. They are all interdependent. Our Conference to-day is an international Conference. It is not a conference in which we are discussing whether Free Trade is good for this country or not, because in this country we are Free Traders, and we mean to remain Free Traders. But it is not only of ourselves that we wish to talk or think. The matter is one of especial importance in view of the number of new States set up in Europe. There are a great many more States than there were, many of them small, therefore to some extent economically weak. There will be a very real danger to those States if their foundations are not well and truly laid, and if hostile tariffs directed against them are set up everywhere. It is obvious such tariffs must be a real danger to the future peace of Europe. It seems to me very important that these new States should not be encouraged to set up fresh tariffs, making it still more difficult to export commodities. The position of Vienna is one which comes specially home to a good many of us in this country, and there is no greater example of the danger of fresh tariffs than the position of Vienna to-day. If we were to set up tariffs between Lancashire and Yorkshire, or if America was to set up tariffs between New York and Pennsylvania, we should think it was exceedingly foolish. So long as there are tariff walls set up between Poland and Hungary, it is really equally reasonable you should set up these other tariff walls as well. It is of very real importance that I should read in the papers this morning that the International Economic Conference at Brussels has passed unanimously a resolution in favour of general Free Trade. That appearing to-day is a specially good augury for the success of our Conference. Never since our civilisation assumed its present form has it been in so much danger as it is to-day, and if we are to return to anything like our pre-war prosperity,



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if we are to continue our progress on ordered lines, then we believe that it is to Free Trade we must chiefly look. We are supported by arguments from all parts of the world. We are fortified by the experience of years, and with these to help us we believe we ought to be able to convince even the Protectionist nations of the value of Free Trade. That we may be able to do this, and that that may be one of the results of our Conference is, I am sure, the fervent hope of everybody here this morning. Now I have much pleasure in calling upon Mr. Hartley Withers to read his paper.

### **The Economic Situation and how far it can be helped by Free Trade.**

**By Mr. HARTLEY WITHERS,**

*Editor of The Economist.*

THERE is no need to dwell at length on the chief facts of the present economic situation, because they are brought home to all of us in varying degrees by the discomforts and distress of daily experience. In most countries most people, nowadays, have to go without goods and services, necessities, pleasures and amenities, which in former days they were able to enjoy. In other words, scarcity of goods and a lowered standard of comfort are the most obvious marks of the present day economic situation. The reasons for this state of things are also obvious, and have been emphasised over and over again in the numberless publications that have dealt with it. The war has brought with it and left behind it destruction, disorganisation and social bitterness, which shows itself practically in the unwillingness of the wage earners to work as hard as they worked before the war, because the war has shown them that at a time of crisis they were able to extort from the employing classes an improvement in their standard, which was cer-

tainly long overdue. And many of them think that the security of this standard, which they are rightly determined to maintain, can be achieved by limitation of output. This restriction, however, is by no means confined to the wage-earning classes. The disorganisation and impoverishment of some of the greatest nations of the world have produced a great gap on the map of international commerce, and the whole machinery of trade is out of joint owing to the loss of what were once ready markets and active sources of supply. In these circumstances the organisers of industry, having been debauched during the war by the easy earning of enormous profits, are tempted now to restrict output rather than face the fall in prices and the lowered scale of profits with which they are threatened by the limited demand produced by the impoverishment of many of the best buyers in the world's market-place. The combined effect of these different causes, which react upon one another, and increase their cumulative result, is that the whole machinery with which the wants of man were supplied is diminished, damaged and out of gear materially, and works slowly and sluggishly owing to the psychological factors produced by the war. It is perhaps necessary to note that the destruction and deterioration of capital extends far beyond the actual material damage done in the course of military and naval operations, though their effect is quite appalling enough. Besides this, there have been six years in which in most countries it has been difficult, and in many it has been impossible, to maintain the equipment of production and transport at its former efficiency. In other words, the question of depreciation, a factor the importance of which is not often grasped by the general public, has had to be to a great extent neglected, because it has not been possible to obtain the labour and material required for purposes of maintenance. Anyone who has to go on a railway journey, even in this country which is said



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to be more fortunate in this respect than most of the nations of Europe, finds that there are fewer trains to carry him, that they are often disgracefully overcrowded, that they do not run as fast as they used to, and that they are even more unpunctual than they were. This is a mere matter of personal inconvenience, but when we reflect that the same causes also make the transport of goods by land a much slower and more costly process owing to diminished and worn-out rolling stock, deteriorated permanent way, and a lowered standard of work by the human factor, we see how important a matter this question of depreciation can become if it is long enough neglected.

As to the disorganisation involved by the present state of affairs, the enormous importance of its effects is at once apparent. Before the war we had brought into being an international economic machinery, which, by the interchange of capital, of goods and of services throughout the world, had greatly improved the general standard of comfort—at least, among more highly civilised countries, though many of us believed that the way in which mankind's increased production was distributed required a good deal of improvement, and that the power of further expansion in production was almost immeasurable. Owing to the war, this whole machinery has been disorganised. Some of the richest producers have been so impoverished that they have the greatest difficulty in securing food and raw materials to supply the needs of their own population, and so are more or less out of the international market, not because they do not want things, but because they cannot pay for them, and not because they are not willing to produce, but because they cannot pay for the machinery and materials that they need before they can do so. And this purely economic factor has been accentuated by political influences. The most obvious of these is the delay on the part of the Entente Powers in fixing

## *INTERNATIONAL FREE TRADE CONFERENCE*

the amount of the indemnity to be paid by their late enemies; until this sum is agreed on it is obvious that it is not possible for the Central Powers to make the financial arrangements which might otherwise be open to them, because possible-lenders do not know the extent of the prior charge behind which they would have to rank. But there is much more than this. The effect of the war has been to call into being a number of new nations, which have shown, perhaps naturally, a strong desire to strengthen their position at the expense of their neighbours, and this feeling has in some cases expressed itself in actual warfare, but more often in the delusion that they can do so by raising barriers against the passing of goods in and out of their frontiers. Thus the creation of these new national areas has had the effect of increasing the disorganisation due to the impoverishment caused by the war. And more of the wheels of the pre-war machinery have been put out of gear.

With regard to the psychological factor, as shown in the attitude of the wage earner and the organiser of industry, the desire for better wages, shorter hours, large profits, and restricted competition are, of course, no new feature in the economic situation. What is new is the bitterness in all classes which has been aroused during the course of the war and the economic delusions which this bitterness has fostered. There is, for example, a general belief among the wage earners that because the various Governments have raised enormous loans during the war, most of the interest on which is paid to the well-to-do classes, therefore the well-to-do classes have been greatly enriched by the war. In this country at least, I think it may safely be said that the well-to-do classes pay their full share in taxation of the war loan interest that they receive, and that one of the few satisfactory economic results of the war has been a general improvement in the

## *INTERNATIONAL FREE TRADE CONFERENCE*

standard of the working classes, especially of those members of them who were worst paid before the war.

Among the well-to-do classes, on the other hand, there is a common delusion that the wage earners are doing something wicked when they try to secure for themselves the best possible wages and the best possible conditions of labour. It is surely not only the right, but the duty of the wage earners, in the interests of the country as a whole, as well as of themselves, to secure the best possible share of the goods which they help to produce, and it is only when they push their demands to a point which may impair the productive efficiency of the community as a whole that other classes have any right to question their action. But it is not only with regard to their attitude towards labour that the minds of many employers have been warped by the experiences of the last few years. During the war they had a practically unlimited market for such goods as they were able to produce. They had not to consider the whims of fashion and changes in the capricious desires of consumers, and they were relieved from all fear of foreign competition. They consequently find it difficult to reconcile themselves to a state of affairs which robs them of these advantages and to make up their minds to the lower rate of profit which seems to threaten them if they get back to work on the old basis. All these causes of bitterness and delusion, which have so important an effect on the smooth working of the economic machine, have been accentuated by the rise in prices that has been so glaring a feature of the war's economic history. The rise in prices has made the wage earners believe that the well-to-do classes have been gaining wealth, which is, in fact, a mirage produced by depreciated currency, and the well-to-do classes have also been deluded by the theory that the wage earners have secured an enormous improvement in their position; while the



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wage earners themselves maintain that the advance in their wages has not even kept pace with the rise in prices of all that they have to consume.

From this brief and platitudinous review it is clear that the present economic position is chiefly marked by poverty due to destruction of capital, impaired capital equipment, disorganisation of the machinery by which goods were formerly produced and distributed, and bad feeling between nations and between classes. And it is an easy task to show that Free Trade, though it cannot claim to cure all these evils, can do much to amend them. When an individual or a nation, or a still wider community, finds that it is poor and unable to enjoy the comforts which it formerly consumed, he or it will naturally desire, if it thinks out its circumstances clearly, to be able to make its purchases and sales in the widest possible market. Anything like restriction of the area in which purchases and sales can be made must necessarily tend to make purchases dearer and sales less advantageous. By Protection a country taxes itself in order to encourage certain industries which it wishes to stimulate within its own borders either for military reasons or because for reasons of national prestige it considers that it ought not to have to depend on other countries for the supply of certain commodities. In other words, Protection is a luxury which nations are quite entitled to indulge in if they think it worth while to pay for it, but it invariably costs them something. To avoid misunderstanding, it must be acknowledged that certain countries have in the past achieved great wealth under a system of Protection, the most obvious examples being the United States and Germany. But in both these cases the special reasons which caused the prosperity are well known to all my hearers.

In the case of Germany a united empire had taken the

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place of a number of smaller states, and by this means the interchange of commodities had been greatly stimulated. The United States is an area of unbounded possibilities, able to supply itself with nearly all the commodities mankind can desire, and it is highly significant that Mr. Boyden, the American representative at the Brussels Conference, last week gave to divided and distracted Europe a lesson from American history. "America," he said, "after a frightful civil war, united herself so completely that there is not even a customs house from end to end of the continent. That union is the source of her strength and her wealth." If Europe would listen to the voice of this representative of a great Protectionist country and have not even a customs house from end to end of the Continent, she would surely find that in her case also this union would be the source of strength and of wealth. When goods are scarce and dear it ought to be unnecessary to emphasise the fact that any nation which restricts their free entry into its market only helps to make them dearer and scarcer, and that any nation which throws down barriers is helping to make goods cheaper and more plentiful.

Thus from the general poverty which is the result of present economic conditions Free Trade can certainly be claimed as an assistance towards alleviation. It cannot immediately make good the destruction and disorganisation produced by the war or heal the bitterness between classes or the acuteness of national jingoism, which are symptoms of after-war hysteria. But in so far as all these evils can be remedied by a freer supply of goods produced in those countries where they can be grown and made most cheaply and distributed without restriction into all the markets where there are buyers, Free Traders can claim that by the policy in which they believe these results can be obtained. The lowering of prices which greater freedom of trade would bring with it would do much to cure

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social bitterness and the belief of the wage earners that they are being exploited by profiteers; and freedom of competition would be a most wholesome tonic for those employers and organisers of industry whose notions concerning the profits that they can expect to earn have been abnormally swollen by the war. When the war broke out it will be remembered that the belligerents, in their eagerness to secure commodities, immediately abolished or reduced their tariffs on imported goods. What the war crisis compelled, the peace crisis also makes imperative. All nations are in need of goods; some of them are unable to pay for them and consequently we see the symptoms of glutted markets in one place along with acute scarcity in others. But those who propose to remedy this state of affairs by imposing further restrictions on production and distribution are surely making a great mistake. If there is a glut in one place and scarcity in another the cure for this state of things is freer distribution by Free Trade and by the granting of the credits the supply of which is at present delayed owing to the failure of the politicians to restore real peace.

And if Free Trade will be a help in the reconstruction that is now necessary, it will also be a strong bulwark of the enduring peace that we hope to establish henceforward. Free Trade teaches every nation to buy from its neighbours whatever they can produce more cheaply, and the fear of consequent unemployment is a bogey that exists only in fancy, because other nations do not give the goods to the buyers but will only send them in exchange for goods and services produced and delivered. In so far as nations trade with their neighbours they become mutually dependent and their prosperity depends on peace. The late war has shown us that weapons of destruction are now capable of such development that if we cannot maintain peace our civilisation will crown its somewhat questionable achieve-

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ments by destroying itself. If, then, Free Trade makes for peace—as it certainly does—those who are working now for Free Trade are working to save civilisation.

The debate was continued by Alderman Louis Strauss, of Antwerp, who protested against the prominent place given in the agenda to a German representative, Lord Sheffield, Sir Hugh Bell, Mr. Arnold Lupton, M. Yves-Guyot, Miss Dorothy Hunter, Mr. Charles Bevan, Sir George Fordham, M. Raffalovich, Dr. Cock Buning, M. Cohen Stuart, M. Henri Lambert, Miss Petre and Sir George Paish.







## SECOND SESSION

*Tuesday, October 5*



SECOND SESSION - TUESDAY, OCTOBER 5

*Chairman*—Mr. J. A. SPENDER

*SUBJECT :*

**The High Cost of Living : How it can be  
Remedied by Free Trade.**

The CHAIRMAN, in a few introductory remarks, intimated that he would reserve what he had to say until after Dr. Van Dorp had read her paper. He then introduced Dr. Van Dorp.

**The High Cost of Living : How it can be Remedied  
by Free Trade.**

**By Dr. E. C. VAN DORP.**

THE high cost of living, caused by the increased prices of all commodities without exception, is a source of sorrow and care to all who are not so rich that prices are a matter of indifference to them—that is, to the vast majority in all countries. It is also the cause of much social unrest. Now it is very easy to prove that Free Trade is a way to reduce prices, for Protection has always been advocated as a remedy for low prices, as it would increase them, if not by the whole amount of the duty, at least by part of it.

But the mere mention of this indisputable fact would not suffice to check the strong current in favour of Protection caused by the war. In consequence of high prices, wages are raised; in consequence of high wages, unemployment is created. It is an ancient error that

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Protection improves employment; yet the means by which it is attempted to exorcise the evil of social unrest is Protection. Whole districts have been devastated; factories must be rebuilt from the foundations. Yet to overcome the difficulties which those who have to do this work encounter, they are surrounded by a wall of Customs duties, prohibitions, and monopolies.

The troubles which many countries—the Netherlands among them—experienced when importing cereals roused the cry for “the independence of the national corn supply.” Yet the hollowness of this cry was clearly proved by the fate of Germany, which for forty years had been compelling her citizens to eat dear bread under the delusion that she could thus be self-supporting during war. Hatred and national egoism have been aroused to such a degree that each country tries to keep all raw materials to itself and deny them to others.

To meet these strong currents it is necessary to do more than prove that Free Trade lowers prices by an amount which, in the opinion of the Protectionists, is but small. The purport of this contribution is, therefore, to prove that without Free Trade prices will increase at a constantly more alarming rate. What is more, a reconstruction of the ruined world will be impossible, and, as Mr. Lloyd George expressed it, “Civilisation may be shattered into atoms.”

The causes of the high prices are two: the one concerns the goods, the other the money.

Prices express in money the exchange value of goods. Price implies, therefore, a relation between the value of money and that of goods. In this way high prices may mean solely that the value of money has decreased because too much money has been put into circulation. It is undeniable that in all countries part of the present increase of prices must be ascribed to this cause.

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An increase in prices for this cause alone does not prove that the world has grown poorer; if the additional circulating medium were distributed evenly, humanity need not trouble about it at all. It does not matter whether the cost of everything be increased tenfold, provided incomes are multiplied tenfold also. Unhappily, this is not the case. The effect of expanded circulation is always that the rich become richer and the poor poorer. Nor can Free Trade remedy this cause of high prices; the true cure is a sound banking system. Here all countries, without exception, failed, in consequence of the lack of theoretical understanding among practical bankers. We only mention this to prevent misunderstanding. The whole of the increase in prices was not caused by the dearth of goods only; while the more inequitable distribution of incomes, which is the result of an inflated currency, has worsened from a social point of view the effect of the scarcity of goods.

This scarcity is, of course, the main cause of the high prices. Even if there were no more money than before the war, prices would have risen, although not in so serious a degree. Not only have large stocks of commodities been destroyed during the war, or used for the unproductive purpose of provisioning the army, but, even now, production cannot regain its normal level. There is too little capital, and what there is of it is not used as profitably as possible.

Whole regions have been used as battlefields, and will in consequence not yield their produce within a measurable space of time; Russia is eliminated for the present as a producer of corn; millions of tons of shipping have been destroyed, and only replaced at a much higher cost of construction, so that all oversea transport of raw material is immeasurably more expensive; entire mining districts have been destroyed and factories wrecked. Finally,



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people work much less strenuously than before the war. The eight-hours day has been introduced nearly everywhere, but at present it cannot be denied that it has not resulted in the greater personal effort prophesied by a few.

All this does not fully explain the alarming decrease in production. Something else must be kept in view :

*It will only be possible to rescue the world from the prevailing economic misery by restoring the free exchange of commodities to the fullest extent: that is to say, by guiding production into such channels that everything is produced where it can be done in the most profitable manner.* This brings out clearly the value of Free Trade as a means of fighting high prices.

The method generally pursued to combat high prices is not only a mere apology for a policy; it is an ostrich policy, which can only make matters worse. For the time being it hides from the masses of the people the effect of the conditions under which we find ourselves. Thus it encourages wastefulness and prevents production from returning into the right path by forcing it into artificial courses. This fact is the most serious one.

By increasing wages, fixing prices, and impeding free import and export, production is withdrawn more and more from its natural basis and pushed in directions it would never have taken if allowed to develop naturally.

This pressure for increased wages originated in a natural reaction after the privations endured during the war; and it may be asserted that the pressure was strengthened by the sympathy if not by the direct interference of Governments.

That wages must be fixed by supply and demand, because they must remain in proportion to the results of labour, is regarded as an antiquated theory, even if not cried down as proving a lack of morality. Claims which the workers at any given moment consider "reasonable,"



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and which one does not dare to deny them—a purely arbitrary index—serve as guides for fixing wages.

It is self-evident that where the gross profit of a trade is only  $x$ , it is impossible to pay  $2x$  in wages; so the enforced increase of wages ruins every business working with a narrow margin of profit, thereby reducing production. But the evil does not stop here. In consequence of the reduced production, prices rise again. From this results a renewed demand for higher wages, and so one finds oneself in a vicious circle.

Of course, interference does not stop at forcing up wages. It also endeavours to prevent the increase of prices, by fixing them. This policy of controlled prices is the chief result of the narrow conception of "reasonable" profits. A few people are seen to make huge profits, and from this the conclusion is drawn that high prices are caused by big profits, whereas such profits are merely the unavoidable result of the unstable condition wherein trade finds itself. Where circumstances alter continuously, huge losses will always be found by the side of huge individual profits.

It is believed that high prices can be fought by prohibiting these so-called "unlawful" profits. This would not affect in the slightest degree the real cause of high prices. The notion implied in the word "unlawful" is not at all applicable to prices and profits. Everyone has a right to sell at whatever price he can: that is the basis of all trade.

And not only must the claim fail that the merchant should renounce the price he can obtain, but also that, generally speaking, this renunciation would be of advantage to the community.

Here we get to the heart of the problem at present before the world.

As soon as prices are determined by other means than

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the free functions of supply and demand, the facts most essential to the restoration of production on as economical a basis as possible are hidden.

There is a French saying giving a very clear notion of the value of supply and demand: "Le meilleur remède contre la cherté est la cherté." It sounds harsh, but it is an inexorable truth. Only when fixing of prices cannot influence production or import, where both are absolutely impossible, can it work advantageously against high prices of prime necessities. In all other cases, fixing of prices will suppress production, and in that way keep prices high. A policy like the one embodied in the Profiteering Act is a sop to labour, but it works to labour's disadvantage.

Here the truth is applicable that in a national community, built like ours on the free initiative of its citizens, only prices can show to the man of business the way he ought to go. Big profits in a certain sphere indicate big demand, and show in which direction to extend production.

This was the fact under ordinary circumstances, but it presses now more than ever. *For the great difficulty from which economical life suffers in present circumstances is that the entire basis of international trade has been pulled away from underneath it.* Even if it were assumed that the Netherlands, for instance, still produces under the same conditions as before the war, it is nevertheless out of the question that she can at present supply, say, the same quantity of cheese in return for half the quantity of coal which she received before the war. So, because Germany can no longer supply the same, and therefore can no longer pay the same as formerly, the entire production of the Netherlands must be rearranged. Other markets must be sought, or other goods produced. It must be found out how much cheese can now be supplied for a certain quantity of coal; and this again determines

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both the quantity of cheese and coal to be produced, and the market in which they shall be sold: the complete dynamics of the price theory. Formerly proportions changed slowly, always in the direction of greater production. At present entirely new proportions must be *found*, with entirely new quantities and entirely new prices. It is a voyage of discovery into an unknown country.

The whole of this procedure is hidden from view by the interposition of money. If there were an actual exchange of cheese for coal, everybody would see distinctly what was happening. Because it is not seen, all sorts of grounds for the difficulties are looked for. Amongst them is the currency rate, which in reality occupies only a relatively small place among the obstacles of trade, and is again partly the result of these obstacles. It is thought that the Netherlands cannot export to Germany because the currency rate is so adverse: the fact is that Germany cannot buy at prices which would pay the expenses of the Netherlands producers; Germany refuses to supply sufficient coal in exchange for cheese, and therefore the Netherlands has been producing too much of one kind of produce. (I use these commodities only by way of illustration, and do not imply that the difficulty is caused by them.)

There is but one guide out of this labyrinth, as long as we live in a community based on the free initiative of its citizens: prices. A community may be socialistic or individualistic; production may be regulated by the authorities, or left to private initiative. But all intermediate forms are illogical. Whoever thinks that equal distribution must come in the first place must advocate a socialistic state. Whoever thinks that such equality would result in equal starvation cannot desire to give up private initiative. But this manner of production allows of only



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one guide for that production: the purchasing power of demand. As soon as interference removes that guide, the producer is groping in the dark and loses the special advantage of free production—namely, that those commodities must be produced which best supply the wants of the community.

There is a certain point in production where demand and supply meet. It is of the greatest importance for the community that this exact quantity be produced. If this does not happen it means waste of outlay which might have been applied more profitably.

Groping in the dark, producers must feel their way to the new paths along which production must move. But it is self-evident that this guidance is of no value if the authorities by their interference disturb the proportion of prices. And this interference is nowadays exactly the basis of production.

Let us take as an example the British coal production. Coal is not sold at the highest possible price, which would place its production on an economically correct basis; and wages have not been determined by demand and supply, in consequence of which labour would be paid according to its marginal value. But wages have been forced up by the arbitrary claims of labour. In order to prevent industry from suffering in consequence, prices are fixed at too low a rate in proportion to the cost. To balance the account, prices for export are fixed at a much higher level; and the non-Free-Trader—that is to say, one who does not see through the money-screen—thinks this to be supreme wisdom. “For the foreigner pays the high wages.” Exactly in the same way as the Protectionist fancies that “the foreigner pays the import duties.”

The whole arrangement is, of course, nothing but Protectionism in a slightly different form. And its advocates overlook the fact that indeed it is to the foreigner's

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disadvantage, but also to that of Britain. For if without this arrangement the foreigner would purchase more British coal at higher prices than the home industry pays, this means that *the foreigner understands better than Britain how to use coal to the best advantage for manufacturing products.*

And in so far as Britain herself would import these products to use them as half-finished or auxiliary goods for her own manufactures, it is quite clear who in this country suffer by the arrangement: the branches of industry which require these half-finished goods. These suffer losses in favour of the miners. But even where the relation is not so clear, even when Britain does not use these half-finished goods, in some way or other British prosperity will always suffer from the reaction of the inflicted disadvantage, because, in consequence of the internationalisation of trade, each country's prosperity is important for that of every other. The more a country produces, the more advantageous will be the terms of exchange for other countries.

It is remarkable that truths like this are even now not understood, when the reaction of the German débâcle is so distinctly felt. But politics are constantly mistaken for economics, and it is not understood that, economically speaking, there exist no enemies but only friends.

If British industry be forced on to an artificial course by this arrangement, the same influence is exercised in countries where coal is made dear by artificial means. But that is not all. Industry in those countries cries out that it cannot exist if coal prices are not forced down, and that the Government must come to the rescue. In this way rates of prices are created of which Mr. Walter Runciman has correctly said that they create "a terrifying structure of false prices on a foundation of sand." And

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the most terrifying fact is that, unavoidably, production must decline further.

If foreign Governments act upon the cries of distress, this amounts to giving doles out of the taxpayers' pockets to keep going necessitous concerns which otherwise would be ruined. Ultimately everybody would live by this policy of charity, until the relief funds were exhausted. It is high time that it is understood that adverse conditions must be faced, that trade cannot exist on the same footing as before the war, and that no trade has a right to exist if it cannot pay its way without Government assistance.

Such assistance is admissible only when a change of the line of conduct abroad can be foreseen, and when it is only a matter of keeping alive temporarily something that will acquire new vitality.

The continuous insecurity of existence is undoubtedly one of the greatest disadvantages of the constant interference in the conditions of production. What had vitality yesterday loses it to-day, but recovers it to-morrow. This means an immense waste of capital. Security for existence is perfectly indispensable to the prosperity of industrial life.

Before the war the choice between Free Trade and Protection frequently implied this difficulty: a consolidated state of affairs had to be broken up, with the unavoidable consequence of destruction of capital. Where Protection prevails, introduction of Free Trade removes the foundation of the existing condition as certainly as the introduction of Protection would do in a Free Trade country. It is conceivable that cautious people shrink from the change, even if they consider Protection to be wrong.

At present, as the result of the war, a consolidated state of affairs is entirely out of the question. Everything



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is topsy-turvy, especially in consequence of the difficulties of German industry, which may be considered to be completely destroyed. If ever, this is the moment for Free Trade all round. And it is a dismal proof of governmental shortsightedness that there is no question of this. This is more particularly the case of Germany, who, more than any other country, must expect her reconstruction from Free Trade, yet tries frantically to hedge herself in.

That Germany tries to stop imports of luxuries is comprehensible and defensible, although one cannot be too cautious even there. What is a luxury to the one is a vital necessity or a commercial commodity to the other. One cannot prohibit everything not absolutely necessary to keep people alive, unless one wants to risk the ruin of all civilisation. And even if one adheres to this principle, prohibition will ultimately be of little use. But in the meantime it is to be feared that at the present moment Germany already goes much farther than the real interests of her citizens require. A tax on tea and cocoa, for instance, certainly goes too far as a tax on luxuries. Nor will such a measure stamp out the over-luxurious habits of the few; this result can only be attained by slow, gradual civilisation. Import duties on luxuries can therefore best be justified, not as a fight against luxury, but as fiscal measures; however, in any case they must be handled with the utmost prudence, like all fiscal import duties.

The opinion that Germany is actually being wrecked by "the gap in the West" ("das Loch im Westen") is sheer silliness. Indeed, if Germany could only be saved by such tutelage of her nationals she would lack all real inner vitality. Similar utterances rest upon the unwitting mercantilism of the masses, which gives Protection its principal strength.

Quite a different thing again are the surtaxes on

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adverse currency rates, levied by Germany, in cases where German goods are sold abroad too cheaply, because not all prices have adapted themselves to the low money value: the so-called sales of stock. Nor is this measure entirely out of place; but here also great prudence is imperative.

Probably German goods will be sold abroad too cheaply, because one is accustomed to think of money as a fixed value, and the popular mind has not been able to keep up with the extraordinary decline of that value. If, for instance, a railway porter near the Netherland frontier receives 1 florin for a job which is similar to that for which his German colleague obtains 4 marks, this is chiefly because 4 marks still possess a certain value in the opinion of the people, which opinion is further strengthened by the artificial reduction of prices of first necessities. Therefore something may be said in favour of this surtax on German prices in order to level them up to the world's market price. But there is a danger as well.

As is well known, trade depends on the difference in relative exertions which various nations make in producing various goods. Even if a nation produces *everything* in less favourable circumstances than some other nation, it may yet be able to enter into commercial intercourse with that nation, provided the differences between the exertion needed for producing various goods in the two countries vary. If this were not the case Germany would not be able to trade with countries who are in every way in more favourable circumstances. Suppose, for instance, that it takes the Netherlands 10 days to produce commodity A, and 20 to produce commodity B, whereas Germany produces A in 100 and B in 500 days, then the Netherlands will start to produce B, and Germany A. For by working 20 days the Netherlands will be able to

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supply Germany with the value of 5 A, and Germany by working 100 days can supply the Netherlands with the value of  $\frac{1}{2}$  B, and both will profit by the exchange.

This advantage will be shown in the prices. *However much German industry be out of joint, there will always be goods which she can supply at a lower price*, otherwise, of course, there could be no trade. These differences must not be wiped out. If this were attempted, the now improving trade would continually be disturbed over and over again, and the goal would never be reached. The differences would always appear in other places; one would, as it were, be running perpetually after them.

The exceptions which can be taken to Free Trade are therefore of very slight importance, of considerably less importance than is usually contended.

One may therefore assert that if formerly Free Trade was useful and allowed trade to obtain its best results, it is now a paramount necessity for the reconstruction and even for the continued existence of the world in its present form.

Free Trade has a much wider aim than the fight against import and export duties. In its widest conception it implies that trade and industry are the right agents to decide which goods each country can produce best, and in what quantities these goods should be produced.

Only by letting this thought penetrate can sound ideas about the vital conditions of trade prevail.

To every clear-minded individual one device only is possible: complete liberty to sell all goods where they yield the largest profits. Narrow Jingoism and fear of social unrest force on to a different course. Jingoism is ever a mistake. If fear was always a bad counsellor, it was never more so than at present. The constant reduction of production but brings the unrest in a form gradually becoming more serious. This induces people



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more and more to take harsh measures—instead of turning away from the road leading to ruin—and leads deeper and deeper into the morass.

Free Trade has sometimes been denounced as a policy of cold selfishness. Nothing could be less true. Its paramount significance is as a moral agent. Protection, with its distribution of doles, leads to general demoralisation. And before everything : Protection does not result in war—it is war. Free Trade, on the contrary, aims at Peace and Goodwill among Nations.

The Chairman, MR. SPENDER, said : Perhaps it will be convenient if I try to start the discussion on the admirable paper that has been read to us. I think a careful study of the economic conditions produced by the war is of the profoundest importance to the student of economics, and especially to those who are charged with the advancement of Free Trade principles. In the war we have seen the most perfect working model of the system which, in its full development, Protectionism aims at. All countries, not merely enemy countries, have found it necessary to restrict their intercourse with each other to the positive minimum. That has been brought about by rules, prohibitions, and tariffs, some of them imperative and necessary, others, we think, superfluous and ill-conceived ; but during the state of war we could raise no serious objection. What we do object to is their continuance, under one excuse or another, after the war. We are all aware that trading organisations, which have grown powerful under the special conditions of war, are all the time exercising a quiet, silent pressure upon Governments to produce this result. We shall be told that now more than ever, owing to modern armaments, and owing especially to the submarines, it is necessary for nations to be self-contained. If we are really to be driven to that conclusion and to re-organise our system of life on that basis, then, under the stress of this fear, we must

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inevitably descend to a lower plane of civilisation. There is scarcely one country—France probably approximates to it—but with that exception there is scarcely one country in Europe capable of producing even the necessities of life, let alone the commodities which the citizens of a modern community have been accustomed to demand almost as their right. If the self-contained ideal is deliberately to be set up, considerable portions of the populations of all countries will be reduced to a lower level. At the present time the situation is exceedingly complicated by a great many causes which obscure and overlies each other. There is a real scarcity caused by destruction in war and diversion of labour to unproductive purposes. We have this scarcity prolonged and continued by the cutting off of Russia, and a considerable part of Central Europe, from the pool of exchange upon which pre-war Europe depended. We have these conditions aggravated by the great expansion of credit and therefore of currency to correspond with the vast loans raised by the various Governments for the war. All these causes interact, but at the bottom is this simple clue—to seek to restore the free circulation which goes with the highest production in the body politic of the world. We have learned in this war that in a modern community, under modern conditions, the whole world is one economic organism. You cannot atrophy one limb without disturbing the whole body. All partial efforts to restore broken exchanges between nations taken singly will prove vain if we do not keep the unity of the whole in mind. This is the message which the International Conference ought to give to the world, and I hope and believe this Conference will deliver it with the utmost emphasis, so far as it can, throughout all the cities of Europe.

Messrs. D. M. Mason, A. Lupton, A. Raffalovich, C. Melrose and C. James having spoken, the Chairman called upon Herr Butzke to give his paper.



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## The Free Trade Movement in Germany.

By HERMANN BUTZKE.

THE fact that somebody from Germany has come direct from Germany shows that at last there are a few Free Traders in our country. The number in Germany is so small, and some of them have become Free Traders through the war. We have said from the first day of the war that the policy of Germany was a bad one, and that the system followed by the men of trade was so bad that it caused our trouble of to-day. I have not come here to talk about the war, but to tell you how bad the condition is in Germany now. The only word is "bankruptcy." We have no longer any trade, not on account of the war or the Treaty of Versailles, but because Protection prevents trade. The trade is controlled by the Government, and its control prevents any business at all. It would be possible to start an agitation for Free Trade among the people when they see what Free Trade achieves outside their frontiers. The only time we heard of Free Trade was on that unlucky day in August, 1914, when the Germans saw that Protection had not brought so much food into the country as should have been brought in. If the country could start again they would find that prohibition in Germany was no argument against Free Trade. We are a poor country now, and we need the Protection of our working class and national labour. We have, of course, to fight against these arguments, and it is difficult. Professor Brentano has brought out arguments against this Protection of national labour, and I think it is necessary to bring it to the knowledge of the Conference, and show them that we are not tired yet.

The owner of an industrial plant, which is dependent upon Government protection in order to maintain a com-

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petitive standard, said: Those who follow Adam Smith need only catch a glimpse of the conditions prevailing in my line of trade, and they will realise that in actual life things take entirely different aspects than in the mind of a parlour philosopher. It is true, that on account of the Protection granted me, the consumer has to pay a higher price for my product than if the article were imported duty free. However, on the other hand, I provide the means of subsistence for hundreds of workmen. The profits which I make, based upon the Protection I receive, remain in the country. A line of trade is preserved for the country, without which we would have to pay a tribute amounting to millions annually to foreign countries.

That all sounds very patriotic, and whoever loves his country will hardly find the courage to oppose this argument. Still we have no mind to be intimidated. The objection raised above is valid only provided that the hundreds of workmen who are, by artificial means, "drawn into the protected trade, would not find lucrative employment without such Protection, and that the profits, which the country would without this deviation draw from its own capital, would not be far more extensive. To illustrate this, we will direct our attention to one example of artificial Protection, in which foreign competition does not come into consideration.

Westenrieder tells us that in Hochdorf, not far from the Lech, in the thirties of the eighteenth century, a farmer by the name of Wank invented a threshing machine. The machine had hardly been completed when he was forbidden, in face of severe punishment, to put it to use. "In fact, a commission came from Munich, in the presence of which the farmer threshed out six stacks of corn. The commission took note of the good results, and was surprised at the man's cleverness . . . and finally he was ordered to destroy the machine on the spot, and

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to pay the expenses of the commission." The fate which befell an inventor towards the end of the sixteenth century was even worse. A man in Danzig had invented a machine which simultaneously produced four to six fabrics. In order to prevent any injury to the interests of the weavers the Council secretly ordered the man to be drowned; and as late as 1719 the Emperor Karl VI renewed the prohibition of ribbon mills. Similar to that was the fate of the inventor of the steamship in Marburg. Papin constructed a small steamboat, which was propelled by a wheel at the stern, and had the boat brought into the Fulda, determined to sail down the Weser and across the North Sea to England. The boat only got as far as Minden, where it was destroyed by bargemen, who saw in this invention a danger to their trade, and that was the end of steamship traffic for a period of 125 years, when it came to Germany from America. All these measures were adopted for the Protection of the employees of the various trades.

We will keep to the case of the threshing machine. Suppose you have an income of 400. Of this you have hitherto spent 200 for 300 lbs. of wheat, and 200 for other things, which, for convenience' sake, we will assume to be 60 yards of cloth. The wheat was hitherto produced by a farmer with the help of a farm-hand and a threshing machine. The farm-hand received 100 wages. Now it turns out that it is a necessity to increase the number of persons engaged in agricultural work. Accordingly a law is passed prohibiting the use of threshing machines. In order to produce the required 300 lbs. of wheat the farmer is now obliged to engage two hands, each at a wage of 100. Consequently the price you have to pay for wheat rises to 300, and that in the interests of agricultural employment. Your first answer will be that, while the agricultural employment by this means gains 100, it is



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indisputable that you thereby lose 100, and that you are unable to see in that a national gain.

But supposing you, the consumer, who are losing the 100 in order to offer more people employment in agricultural work, are a contemptible person, expelled from human society, for whom no one need have any consideration; in this case the loss of the consumer does not in itself have any effect.

You had spent 200 on other goods, 60 yards of cloth as assumed; of this 30 yards were produced by the clothmaker with the help of the newly engaged farm-hand and the capital required for his pay. Now that you must pay 100 more for wheat, you can only buy 30 yards of cloth. The clothmaker, therefore, loses your purchase amounting to 100. Now somebody may protest that, in place of *your* demand for cloth there would be a demand on the part of the farmer, and to be sure he now receives for the 300 lbs. of wheat sold to you 300 instead of 200. However, as he must pay 100 to the second hand, whom he now has to pay instead of the clothmaker, your demand for cloth cannot be compensated by an increased demand on his part. The farm-hand and the capital which were hitherto required for the manufacture of 30 yards of cloth are now no longer at the disposal of the clothmaker; the demand for cloth is now less by one-half; the clothmaker can only produce 30 yards instead of 60. Will he not now declare that the 100 which, on account of the prohibition of threshing machines, are turned in to the farmer, represent a loss of 100 to him? We, therefore, must come to the conclusion that the gain in agriculture is confronted by the loss of an equal amount on the part of the clothmakers.

What, then, has been gained?

If you, as heretofore, had given the farmer 200 for wheat and the clothmaker 200, you would have received

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for your money 300 lbs. of wheat and 60 yards of cloth; if you now have to pay the farmer 300 for wheat, you only receive 30 yards of cloth, and in addition to that the cloth-maker forgoes 100, which you are obliged to give the farmer. While agriculture has gained 100, the clothmaker has lost 100 and you also 100. The gain of 100 to one person is confronted by a loss of 200 to two others.

The resulting revenue demonstrates to what extent, as a whole, national production now profits by the Protection given to agricultural employment. The revenue had hitherto been 300 lbs. of wheat amounting to 200, and 60 yards of cloth at an equal value; it now amounts to 300 lbs. of wheat and only 30 yards of cloth. The 300 lbs. of wheat cost 300 and the 30 yards of cloth 100. The aggregate cost of production of these commodities has remained the same—i.e. 400—but the quantity of such commodities has decreased. Such is the method of increasing national wealth by prohibition of economic improvement!

Just as with the prohibition of the threshing machine, the drowning of the inventor of ribbon-mills and the destruction of Papin's steamship, so it would also be if, for instance, where there is a possibility of rendering fertile soil in distant lands subservient to the needs of the domestic populace, by extending railway connections, such development were prevented by imposing tariffs and duties, in order to protect the cultivation of unfertile land at home. In both cases the exploitation of improvements which would serve national development to far better effect is prevented in the interests of individual circles.

The question of Free Trade is by no means settled, and will never be laid aside. As long as it is under discussion we will win new followers of the Free Trade principles. And this because those who think, and do not belong to the few who seek their own profits from the



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disadvantages of others, are bound to decide in our favour. There are, in all political parties, men who place the general welfare above individual interests, never mind how much they diverge in their various opinions. The Free Trade men have become an important independent party of no small numbers, and above all, strong in fundamental principle. They suffer from no dissension in theory and practice. What they have realised as the truth they wish to establish as a truth. They do not fight shy of the consequences of their teachings. Moreover, in the accomplishment of their aims they prove the benefits for which they aim. Free Trade alone offers a reliable guaranty for the safety of property, as it alone maintains as a consequence inviolable freedom in the exploitation of productive sources. Free Trade alone leads to lasting and secured peace, in that it renders the nations dependent upon one another for reciprocal satisfaction of their respective needs. It alone is able to expel the misery of the masses, in that it dispenses with everything that hinders industrial endeavours towards productive efficiency.

In the same measure in which others see their misplaced endeavours shipwrecked, they will join our own ranks and strengthen our own endeavours towards establishing conditions which we all are eager to have. And the only way of achieving this end is on the platform of universal material and intellectual development, liberating all productive endeavours.

Forward, then! We have hoisted our banner, and will gather around it to fight an intellectual battle which has been forced upon us, a battle which we are determined to fight to the end, confident that it will fly after many a flag has fallen in the fray of party struggles, aye, after the banner of national glory has been hung where the monuments of history are stored away. Then the Free Trade banner will be flying high up in the wind, a

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messenger of peace, a conveyer of salvation from nation to nation, as free as the wind which is bearing it out across the seas.

I gave the above example because I wanted to show, as I said before, that we are not willing to lay our weapons down and refuse to fight against the Protectionists in our country. It will be very hard to fight against them because they are much stronger than we are. I came here to ask you to help us in Germany to become another Free Trade nation again. We have been Free Traders. We ceased being Free Traders in 1878, and after that time you know what happened. You know that the politics of Germany since that date had something to do with this war, but I don't want to talk about that. The reason I came, as I said before, is to ask you to help us in Germany to form a league of Free Traders for the benefit of all nations.

## THIRD SESSION

*Wednesday, October 6*



### THIRD SESSION - WEDNESDAY, OCTOBER 6

*Chairman*—SIR GEORGE PAISH

*SUBJECT :*

**Financial Stability: How far it can be restored  
by Free Trade.**

The CHAIRMAN, reserving his own paper, called upon M. Yves-Guyot to open the subject.

**Financial Stability: How far it can be restored by  
Free Trade.**

**By YVES-GUYOT.**

THE object of Protection is to close the frontiers against foreign products; and that—assert its partisans—in order that the nation may be self-sufficing, may not allow its gold to pass into foreign lands, and may not become tributary to such foreign lands.

But the object of the blockade was identical: its purpose was to close the frontiers of the blockaded countries against foreign products, and consequently it obliged them to be sufficient unto themselves, preventing them from being tributaries to foreign lands.

If the blockade is a war measure, considered, by those who institute it and by those who are subjected to it alike, as injurious, then how can Protection, the purpose of which is the same and which seeks to obtain the same result, be considered beneficent?

In spite of over four years of warfare, this very simple reflection does not strike a number of persons who, nevertheless, have known the blockade, because they have called



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for and practised it, or because they have opposed it and been subjected to it. This is one more proof of the little influence which experience exercises in political matters, and of the danger of political intervention in economic questions. It is an undeniable proof of the usefulness of Free Trade. For, *What is Free Trade? Free Trade is the non-intervention of the State in trade agreements, at home or abroad, between individuals; it is the freedom and security of private agreements.*

*What is Protection? It is the substitution, in the direction of trading contracts, of the will of leaders for the will of private individuals.* Aggressive Protectionism is Economic Imperialism.

From August 1st, 1914, to November 11th, 1918, the date of the Armistice, the Governments tried to replace the economic activities of private parties by their own activities, and they have continued since then, and are still continuing to do so.

During the first period we were in the midst of war! To the disturbances directly resulting from the fact that, in all the belligerent lands, the most capable men in the full strength of their manhood were diverted from productive occupations to destructive operations, must be added others which always modified the conditions of trade.

Because they were less prepared, the belligerent States had all the more urgent need of foodstuffs, clothes, shoes, and munitions. They were purchasers at any price. Defeat would always cost more than the war expenditure! Such was the conviction of the statesmen who were determined to conquer, and they were right. Naturally, they were surrounded by people always too ready to take advantage of the vehemence of their wants.

All relations between cost price and purchase price were upset. The Governments were not restricted in their prices

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by fear of loss. They were not purchasing to re-sell; they were purchasing for consumption, and the greater part of their consumptions were but destructions.

In exchanges between private parties, price is the determining factor; each man, whatever his need may be, suits his purchases to what he believes to be his purchasing power. He cannot exceed that amount under penalty of failure.

The Governments had not that danger to fear. They had no direct means of payment to foreign countries, except England, who owned a share of the Suez Canal stock, but she keeps them and she was not ready to sell them. They had no capital invested abroad. All the Governments had debts. They were thus unable to pay with resources which they might have had abroad.

They had no goods to sell. If some of them, like England and France, were able to assist allies by supplying them with certain goods, such transactions had no commercial character. Many were mere loans which are not yet repaid.

It may therefore be said that the Governments purchased without having securities, goods, or gold to hand to their purveyors. To obtain them, they were obliged to call on private individuals by three means: taxation, loans, and the issue of different forms of paper money. In no country, not even in England, was it possible to make the taxes cover the greater part of the war expenditure; it was covered by loans or by means which have brought about the phenomenon called "inflation."

Prices are the barometers which register the relations of the law of supply and demand. They are never stable; they oscillate constantly between the two factors—supply and demand. The oscillations are the exact indicators of the economic situation. They show the normal and abnormal conditions. They form the basis of forecasts which

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every man is obliged to make in conducting his business.

One of the great vices of Protection is that it falsifies prices. It creates preference prices for articles which it favours at the expense of other articles. It brings about increases of price which result neither from the cost price nor the purchase price, nor the needs or purchasing power of consumers. It imposes these increased prices, and it also creates illusions by making fictitious increases which are detrimental to those who need the favoured articles and to those other articles for which the power of purchase is decreased. It teaches the manufacturer not to take into consideration the cost price of his foreign competitors; and then it impels him to "dump" in order that his products may not be forced beyond the frontiers where the protective duties cannot follow them.

But when the State carries its intervention to the extent of itself becoming purchaser, then the disturbances are much greater. France, England, Italy purchased corn, which they retailed at a loss; thus they caused a deviation of all economic conditions. In France, it was the peasant's interest to feed bread to the cattle.

The purveying system leads to the establishment of two rates for means of payment, two legal tenders: the home rate and the foreign rate.

Control was weak at home. When criticised or asked for explanations, the Government invariably replied by invoking the plea of *salus populi*.

Failing in the interior of the country, control was carried on abroad; the foreigner showed distrust; this meant a rise in exchange.

You need dollars to pay for your purchases from the United States, pounds sterling to pay for your purchases in Great Britain. What can you give in exchange? Paper money. That is to say, promises to pay not at any fixed



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date, but when your Government shall have redeemed the paper bills it is issuing by billions. When will that day dawn? And the holder of dollars or pounds sterling requires that the man who needs them to pay for goods shall hand him double or three times the number of francs represented by the par value, according to the weight and standard of gold.

As a result, the French importer must pay twice or three times the price the foreign goods are worth in their own country. It is a situation quite opposed to that created by the dumping system. Dumping was favourable to the foreign producer who used certain German products, for he obtained them at a better price than the national purchaser. It is the contrary in all countries which have the exchange against them.

Then the old bullionist system is resuscitated, the balance of trade is talked about as in the days of Colbert. All importation is an evil, all exportation a gain.

The heads of Governments take variable measures, sometimes prohibiting the importation of such a product, sometimes that of another product. Why? Because of the exchange!

But the said product is necessary for alimentary purposes; or it is a raw material which is indispensable for the production of such and such an article. Such is the case with silk, the importation of which into France our Government wanted to prohibit, though it is an indispensable raw material of several hundred millions of francs of exportable goods.

This diversity of prohibitions could only be explained by the intervention of private interests appealing to public authority. The most insatiable protectionists should be satisfied with the satisfaction given them by the rate of exchange. But this does not suffice for them. They ask either prohibition or, lacking that, increase of Customs



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duties. In France they obtained the decree of July 8th, 1919, increasing the tax by adding to it the product of the multiplication of the existing duties by coefficients fitted to each of the goods. This operation results in increases of 100, 150, 200 per cent. of the duties on certain qualities of steel, copper, woollen goods, shoes, cow-hides, etc. The exchange, while adding to the price of the goods, increases the cost price of products in two ways: from the direct point of view of the consumption of the goods themselves; and indirectly as regards labour, for it entails increase of salaries.

The rise of Customs duties, increasing the cost price which is already raised by the exchange, becomes prohibitory to exportation. It therefore contributes to increase the exchange.

*The suppression of Customs duties whose object is not merely fiscal but protectionist would be one of the most important coefficients of a fall in the rate of exchange.*

The prohibition against exportation of capital still exists at least in France and in Italy; but, if I cannot export capital, how do you expect me to pay? And then how can I contribute towards the lowering of exchange?

*War is carried on between States: the political solution belongs to the domain of Governments.*

During the war we witnessed the economic incapacity of all Governments. If this experiment were not sufficient to prove the powerlessness of Socialism, the experiment now being carried on by the Bolsheviks gives a further demonstration which cannot be denied even by their apologists.

In free lands exchanges are made between private individuals; the economic solution should come from them. In the economic conferences which have taken place, such as the economic conference of the Allies which was held from June 14th to 17th, 1916, many subjects were

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discussed, but the question of Free Trade was systematically neglected.

Nevertheless, there were men who called, with passionate eloquence, for a single economic front; but such a single economic front entails the suppression of customs barriers; and the same men asked that such barriers be raised or that such arrangements be made as would have resulted in prohibition of such and such an export from one country to give the monopoly to another. Instead of being a result of the free will of interested parties, the division of labour would have become an act of governmental authority.

But we have lately seen an evident truth set forth by Mr. George E. Roberts, speaking with all the authority conferred on him by his position as Vice-President of the National City Bank of New York; namely, the necessity of importations for the United States.

"Europe's debt to the United States cannot be settled in gold. The total production of gold in the world outside of the United States is less than \$400,000,000; and even if the debtor countries were able to send the United States considerable sums in gold the effect would be to cause a further inflation of prices in this country, which would be to its disadvantage in foreign trade and injury to it at home.

"Dollar drafts at a premium mean that American goods cost more to foreign customers; a premium upon dollar exchange is an obstacle to our export trade which we will be compelled to reckon with."

Mr. George E. Roberts gives a striking example when speaking of the relations between Canada and the United States :—

"The balance in favour of the United States in trade with Canada in three years has averaged over \$300,000,000 per year. Canada has balances in her favour in trade with

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other countries, but those countries also are in debt to the United States, so that those balances cannot be used for settlement here. The total gold reserves of Canada are not much above \$200,000,000.

"In February the premium was 15 per cent.; this premium is not fixed in the United States. It results from competition in Canada for the means of payment in the United States. It is not a situation caused by bankers or that can be remedied by bankers.

"The premium is an inducement in the nature of a bounty for Canadians to export produce to the United States. The Canadian paper and pulp manufacturers are making a handsome additional profit on their sales in the United States by selling their American drafts at a premium."

If in all countries the exchange is in favour of the United States, the result is a premium to imports and against exports to the United States.

All the monetary combinations proposed are based on the error attacked by the Physiocrats of the eighteenth century, resulting from confusion between monetary symbols and abundance of goods and facility of service.

*Trade is a barter between products, services, and securities, in which gold only plays a part as settling medium.*

*The purchasing power of every country is in its powers of production.*

Mr. George E. Roberts rejects the old prejudice we have seen come to light every time when there was surplus production in any country.

"It is a mistake for the United States to advocate foreign trade, as is sometimes done, on the ground that we have so greatly increased our general productive capacity that we cannot consume the output of our industries. The people of the United States could easily consume a volume of production equivalent to twice the present



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industrial capacity of the country; but in some lines of production we have developed our capacity beyond the demands of our people for those products, and we want to exchange such products for other things of which we are in need. We cannot dispose of them, or use that industrial capacity, except on a basis of exchange.

*"But no well supported argument can be made in favour of trying to expand our exports without increasing our imports."*

The remarks which follow are perhaps not so forcible as might have been expected from this conclusion. Mr. Roberts speaks of importations of raw materials and alimentary articles coming from South America, Asia, and Africa; but the largest amount of exports from the United States are to Europe. During the fiscal year ending the 30th June, 1913, they were \$1,479 millions, on total \$2,466 millions, or 60 per cent. During the fiscal year ending the 30th June, 1920, they were \$4,864 millions, on total \$8,111 millions, or 58 per cent.; they will remain in the same proportion. Consequently it is, above all, to European products that Mr. George E. Roberts' conclusions apply.

I borrow from Mr. J. W. Taussig, author of the "Tariff History of the United States," a decisive argument: "International commerce will yield profits to American exporters which will be all the greater because they will be able to purchase foreign goods at a cheaper rate. But if an exporter sells any goods for 100 francs and brings back other goods of equal price, then if the Customs levies 50 per cent. on the imported goods the exporter must sell abroad 200 francs to obtain an article worth 100 francs. *His profit is decreased by the full amount of Customs duty.*"

Moreover, Americans desire to put capital into European business. The Customs tariff of the United



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States will affect them if the products of such business are intended to be imported into the United States or if they desire to transfer a part of their profits into the United States in the form of goods.

From this *exposé* we must conclude :

Freedom and security of private contracts is the great factor of progress : it includes freedom of labour and liberty of exchange.

Protection has for its object to substitute, in the direction of private business, the will of Government leaders for that of private individuals—Government intervention can only be a disturbing element in transactions undertaken at the risk and peril of private parties.

The events which have occurred since August 1st, 1914, are a further confirmation of the disturbances brought about and the importance of substituting a system of Free Trade.

All economic history proves that the oscillations of exchange are weaker in proportion as precious metals play a smaller part in international trade. Gold only being a settlement medium of business, the true strength of banks does not depend on the relations between their metal reserves and the amount of their bill issues. It depends on their commercial portfolio, and consequently any measure which restricts trade-barters has the result of weakening the banks.

It is thus right to say :

The easier it is to exchange goods and services, the smaller will be the part played by monetary symbols ; in settlement, the more the variations of exchange will decrease, and the greater will be the financial stability between the various States.

YVES-GUYOT.

September 3rd.

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The CHAIRMAN then read the following paper :

## **Financial Stability: How can it be Restored by Free Trade ?**

**By Sir GEORGE PAISH.**

ONE finds difficulty in realising the extraordinary change in the world's financial condition since 1914. Prior to the war financial stability was growing steadily greater and hopes were indeed entertained that the financial crises, which formerly recurred from period to period and which brought severe trade depression in their train, would, as the world's financial organisation improved, become less and less acute and that progress would become more regular and more rapid. The action immediately before the war of the American Government in organising the Federal Reserve Banks of the United States was in itself expressly designed to obviate those banking crises in America which from time to time threw international finance into disorder. But until the great war no one imagined for a moment that the financial condition of the world could change so completely and so suddenly. In six years the financial conditions have become completely reversed, and, instead of stability, the financial situation has become so unstable that nations which before the war were among the strongest are now on the verge of bankruptcy, and great banking institutions which before the war were of monumental strength are, in common with the countries in which they are situated, in danger of insolvency. Countries which before the war were creditor nations have now become debtor nations, whilst debtor nations have become creditor nations.

Nor is financial instability confined to nations and to semi-Governmental institutions. The whole business world is in serious danger from the inflation of credit and of currency, which have created so much fictitious

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wealth that the imagination is baffled to comprehend all that it implies. Nearly £50,000,000,000 of debt has been created, which the persons who possess it regard as wealth but which in the event of the bankruptcy of the crippled nations will become practically valueless. Moreover, the world's stock of merchantable goods as well as of buildings, plant and machinery are at a level of prices which induces the owners to value their assets at gigantic totals, but which at any moment may fall so heavily in price that their possessors will be reduced from affluence to relative poverty. Already a collapse of prices of non-essentials has begun, and heavy losses are falling upon individuals in all parts of the world.

Thus, not only are great nations and great institutions in financial danger, but the affairs of the whole business world are in such a condition of uncertainty and of instability as has never before been witnessed. If the breakdown of credit, of commerce and of trade which is now threatened becomes a reality it is clear that practically the whole world will become insolvent. Unfortunately this would mean not merely the disappearance of the war-made and fictitious wealth but that more lives would be lost than were destroyed in the war. It must be left to the imagination to visualise what would be the political consequences of the insolvency of most of the war-stricken nations and of their inability to buy the necessaries they require to preserve their peoples from starvation and from pestilence, as well as of the inability of the rest of the world to sell the produce and goods it has available for sale in foreign markets. Clearly, civilisation itself would disappear.

That this picture of the financial instability of the world at the present time is not overdrawn everyone in touch with the international situation and everyone who has followed the discussions at the Brussels Conference



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will freely admit. Never has there been greater financial instability throughout the world, and never has there been greater financial, economic and political danger.

In normal times the danger of a financial crisis can be more or less concealed, as the causes are frequently obscure and the remedies are within the power of statesmen and bankers to apply without needing to alarm the public. Indeed, public alarm merely intensifies the mischief. To-day, however, financial instability is so obvious that danger arises not from discussion but from failure to discuss. The whole business world is in a state of anxiety. Bankers and men of affairs in all countries desire to know what steps are being taken to rectify the situation, and are eagerly looking for any plans that will remove the danger or that will even diminish it. As matters now stand the very highest authorities express the conviction that nothing can prevent a world breakdown. Probably no conference that was ever held was of greater importance than that which is now sitting at Brussels. To that conference the business men of the whole world are looking for salvation. Will it evolve any plan by which the threatened breakdown of credit, of commerce, and of trade can be averted? No single remedy will be adequate, for many difficulties have to be overcome, and unless all the necessary remedies are applied the others must fail.

The resolution which has just been passed by the Commerce Committee of the Brussels Conference in favour of universal Free Trade shows, however, that the Conference is considering the most important factor which is helping to bring about a world breakdown, and which, if dealt with, would greatly facilitate recovery. It is clear that the world cannot recover from its present dangerous condition until goods move freely from country to country and world currents of trade are re-established. At the present time the world's output of produce and of goods is in-



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adequate to its needs, but in spite of this producers cannot sell even what is available. Nations, for political and racial reasons, are refusing either to sell their surplus productions to neighbouring nations or to hold communication with them. But the very act of refusing to sell to nations in need of foreign produce renders the nations that refuse to sell in turn incapable of buying from other nations which would be able to supply them with the goods they themselves require.

How near to the breaking-point the world's commerce has come is reflected by the fall in the values of European currencies. The depreciation in the British pound has now reached about 30 per cent., while the depreciation in the French franc is nearly 70 per cent., in the Italian lire nearly 80 per cent., in the German mark 90 per cent., and in the Austrian kroner, Polish mark, and Russian rouble nearly 100 per cent.

In large part, of course, the fall in the value of European currencies arises from inflation, but the depreciation would not be nearly so great were it not for the inability of Europe to pay for goods purchased in other goods, owing in part to the barriers and hindrances which have been erected to the free interchange of goods. Clearly, until the nations can once again pay for goods and services purchased from other nations in their own goods and services, financial stability cannot be restored. Indeed, so long as the existing situation continues and the nations are prevented by political, economic or financial factors from restoring their productive power and paying for goods with goods, financial instability must grow worse.

But whether nations desire to have intercourse with other nations or not, whether they desire to sell their own goods to them or to refrain from doing so, whether they are willing to purchase from those nations or unwilling to purchase, it is essential for them to realise that the pressure

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of circumstance, the pressure of necessity is becoming rapidly greater, and that sooner or later every nation will be compelled by reason of its own sufferings to consider how it can promote the recovery of other nations in order that it may itself recover. When that time comes it is evident that nations will no longer refuse to sell to other nations from any cause whatsoever, whether political, racial, economic or financial. Under the stress of privation nations will be compelled to buy freely from every nation that can supply their needs and to sell their goods in payment wherever they can be sold.

Already the world is receiving object lessons of great significance in what lies before it unless it observes sound economic laws and endeavours to live in accordance therewith. The deplorable condition of Germany is an object lesson of what awaits other countries of the world if they maintain their present policy. Germany is not starving primarily because she is unable to export but because she is unable to import.

Prior to the war Germany by her protective duties endeavoured to restrict imports and to expand her exports. The German people are now learning that imports are of as much importance as, indeed under existing circumstances of greater importance than, exports. Italy is also learning the importance of imports and of the value of freedom of exchange. The adoption by the Italian people of revolutionary methods comes from their inability to buy abroad the food and material they so urgently need. It is clear from the action of the Italian workmen that they do not desire to be idle. Indeed, when the employers locked them out they insisted on continuing their work. They are willing to produce all that it is possible for them to produce in order that they may be able to buy abroad the food they need to keep them alive and the coal and raw material they must obtain in order to work.

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Hitherto France has succeeded in buying all that she required from foreign countries because they were willing to supply her with the credit with which to buy, but the power of France to obtain credit is diminishing, and the French people are learning in a rough school the importance of imports and that the power to buy things is of equal importance to the power to sell their own goods. Unless France can continue to import in spite of her inability in her present condition to export sufficient to pay for what she needs it is clear that the French people will shortly be subjected to economic privation as great or greater than that of Italy and possibly as great as that of Germany.

But America, too, is rapidly learning the disadvantages of Protection, and that imports are as essential, indeed fundamentally more essential, than exports. America, in part owing to her unwillingness to purchase the goods of Europe, is finding great difficulty in selling her own goods and her own surplus supplies of food and raw material. Already heavy losses have fallen upon the manufacturers of America because Europe is not in a position to buy, much as she needs American goods. The trouble arises, not from America's power to export, but from her failure to import. During the war, in order to export, America has had to purchase vast quantities of European securities, and as she is no longer willing to purchase these securities, as she has hitherto done, her power to sell her own goods is rapidly declining. It is obvious that America cannot continue indefinitely to sell her produce and goods abroad unless she is willing to take payment in a corresponding amount of goods and services which the rest of the world is capable of selling to her. Traders in America are learning, and are likely to learn from bitter experience, that imports are as necessary as exports, and that nations cannot permanently sell unless they are prepared to buy.



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Canada also is learning lessons she never expected to learn of the advantage of importing as well as of exporting. At the moment Canada has a great crop which she desires to sell in the European market, but inasmuch as Canada purchases the greater part of the goods she requires from the United States and not from Europe, and inasmuch as the United States is not purchasing from Europe even sufficient goods to pay her for her own exports, Canada cannot be paid for the food she is supplying to Europe through the United States. Of course, if America were willing the matter might be adjusted for a time by sales of European securities to America in order that Europe might in that way pay for her purchases from Canada, but such sales cannot indefinitely continue. Already the debt of Europe to America and Canada is so great that the interest cannot be paid because of the lack of exchange arising on the one hand from the inability of Europe to export sufficient goods to America and to Canada, and on the other hand from the unwillingness of America and Canada to buy the goods of Europe.

And what applies to America and to Canada applies in greater or lesser degree to the other nations of the world. Countries that are willing and able to take payment in European goods to the extent of their sales of produce and goods to Europe can continue to do business, but countries which refuse to buy either goods or securities for the produce and goods they have for sale abroad cannot sell them. The result is that great quantities of natural products are piling up in all parts of the world because they cannot be sold, owing to unwillingness to buy European products or European securities, as well as to the inability of Europe to produce.

Hitherto the difficulties have been overcome by the willingness and ability of the bankers of the world to finance exports in the hope that sooner or later they would



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be paid for in imports, and that the debts would thus be liquidated. But inasmuch as bankers are discovering that goods exported are not being paid for by imports and that the debts which traders and merchants have incurred are not being liquidated, they are not willing, indeed they are not able, to expand their loans much further. Consequently an increasing proportion of the produce of the world cannot be sold, in spite of the fact that nations are starving because they cannot obtain food and material.

The remedy for the existing situation is first of all the recognition by each nation that it is part of a world machine and part of a world economy, that its own welfare depends upon the efficient working of that machine and that political and racial considerations must be subordinated either to feelings of common humanity or to regard for its own economic welfare, which will be most seriously injured if the world machine of credit, of commerce and of trade comes to a standstill.

The second remedy which needs to be applied is to enable countries whose productive power cannot be restored without large purchases of foreign food and material to obtain the credit essential so that they can produce the things they need for the purpose of exchange. Unless production can be re-established exchange cannot take place and the financial situation cannot be readjusted.

The third step is to encourage every nation to exchange any surplus of produce and of goods it is able to produce freely for the produce and goods which it requires of other nations.

Having applied these remedies, the nations must base their future policy upon the indisputable fact that they will only be able to purchase all they require from other nations by sales of goods and services, and that nations which are not willing to take payments for goods and services in other goods and services will not be able to

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dispose of them. Nations cannot continue to sell indefinitely without buying nor can they continue to buy without selling. In normal times temporary differences between the imports and exports, both visible and invisible, can be made good by the transfer of securities between the countries, but this is possible only to a very small extent, and goods must be paid for with goods.

At the present time the financial stability of the world is threatened by Europe's loss of productive power, which renders her incapable of paying for goods with goods, and stability cannot be recovered until Europe's productive power, including that of Russia, is re-established, and every nation is again able to pay for what it buys with what it sells. For the European nations to be able to consume in future all they require they will need to have much greater imports. Not for many years will it be possible for Europe to recover her power to produce food in the quantities she produced prior to the war. The loss of man power, especially of the man power devoted to agriculture, has been exceedingly severe. Force of circumstances will compel the nations to economise their man power and to secure as great an output as formerly by greater specialisation. This means that nations will become less and less self-contained and more and more dependent upon the free exchange of goods for their financial stability. The ultimate effect of such specialisation will be an immense expansion in productive power, both actual and in proportion to population, which involves a greater volume of international commerce. This means, in turn, that nations will be more closely bound in one economic family, and war will not only become more disastrous but more impossible. With the disappearance of war and the freer exchange of goods between the nations financial stability would become much greater than ever in the past. Therefore, the restoration of financial stability to the world greatly depends upon

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the adoption by all the nations of a universal policy of free exchange. The progress of the world in future depends upon an international Free Trade policy which will enable the nations to purchase the things they need from other nations and to sell the things they produce in return.

The discussion was continued by M. Raffalovich, Messrs. A. Lupton and D. M. Mason, Miss Van Dorp, Lord Sheffield, and M. M. J. Pierson.

## **FOURTH SESSION**

*Wednesday, October 6*





## FOURTH SESSION - WEDNESDAY, OCT. 6

*Chairman*—LORD SHEFFIELD

*SUBJECT :*

**The Open Door.**

The CHAIRMAN read the following paper :

**The Open Door.**

**By LORD SHEFFIELD.**

By this heading I understand the desire to trade as widely as possible both in our imports and our exports with all who are willing to trade with us. It involves the most absolute free trade in the sense that if duties have to be imposed for purposes of revenue there shall be an equivalent internal duty on producers to prevent the consumer being at a disadvantage. It excludes any preference in favour of our own Colonies or Dominions. It prohibits any attempt to secure a colonial market for our own productions at the expense of their possible trade with other countries.

Any such preference is the closing wholly or partially of the wide door of world-wide trade while opening the comparatively small wicket-gate of our own dependencies. It may be said that this is basing economic policy too exclusively on financial considerations. It excludes such ideas as fostering the progress of our co-nationals over the seas, the prohibition of any ethical consideration such as the exclusion of goods produced under uneconomic conditions of artificial cheapness, such as prison-made goods, sweated goods, the prevention of the competition of labour

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unduly kept down, such as slave labour or the labour of races whose conditions of life are so low as to enable them to produce at a rate beyond the possibility of competition where hours of labour are short and its remuneration and standard of living are liberal. Formerly protection offered liberal profits to the favoured capitalist. Now it drapes itself in the economic disguise of generous sympathy with labour.

Nearly a hundred years ago in this country we had sincere anti-slavery champions who refused to use slave-grown sugar, and the West Indian planters used this ethical emotion as an auxiliary to their protective policy—such a policy broke down when slave-grown cotton was used on a large scale and slave-grown sugar was resisted on a small scale.

The bulk of the gold now produced in the world comes from South Africa, where the native wages are a mere pittance compared with the wages of white workers who have no scruple in demanding the exclusive right to the better-paid positions in the mines.

Most tropical or sub-tropical products such as tea, rubber, etc., are produced by the labour of races whose standard of living is far lower than ours.

In fact, to regulate imports by an inquiry into the social conditions of the workers who produce them will be found to be impracticable, and should these imports be raw materials, the effect would be to deprive the excluding country from the power of competing in the world market unless all industrial countries joined in the policy.

Australia has attempted by legislation to raise the standard of living for sailors taking part in her coasting trade. The effect is to restrict the freedom of the Australian market and to raise the cost of goods to the Australian consumer. But in this and in similar cases it will be found that the philanthropic pretext is inoperative, but the in-

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creased cost and the limitation of commercial opportunity is immediate.

But international trade in highly developed countries such as Europe, the United States and the progressive Republics and Dominions of European origin throughout the world is so extended, so complicated, that the economic prosperity of all countries is dependent on all making the best of their own natural advantages and using to the utmost what other countries can produce better and cheaper.

Bishop Berkeley in his *Querist* dealing with the primitive conditions of Ireland as he knew it, could recognise that industry and energy applied to work at home was the vital need, and given these he could ask wherein Ireland would suffer if a brazen wall a thousand cubits high shut her out from the rest of the world. But a developed and industrialised country could not flourish, indeed could barely live, if not a brazen wall but a moderate wire entanglement were put up round its external trade.

This is an International Conference, and each nation must examine its own conditions as to which each has more familiar knowledge than a foreigner. Perhaps the United Kingdom is the most complete illustration of the inter-dependence of the world and of the need for each country to seek its prosperity through the co-operation and prosperity of all other nations.

At any rate, I shall illustrate the need for the open door in commerce from the conditions of this country to which many other industrial countries are approximating.

An agricultural community can approach more nearly to a self-contained existence than an industrial.

But an industrial community becomes more urban, and we see that tendency in all the leading countries; not only in this country does the urban population greatly out-



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number the rural, but the same rapid growth of urban and industrial centres is seen in Germany, in France, in Italy, Switzerland, Holland, Belgium, in the United States, and in the new colonial States springing up in Australia, New Zealand, Canada, and elsewhere. But an industrial community must rely largely on imports for its raw material.

In the United Kingdom our chief industries rely on cotton, wool and iron. In the case of cotton we imported the whole from overseas, in 1913 over £79,000,000. For wool we depended chiefly on overseas importation, and in the same year imported nearly £38,000,000. In the iron industry we imported iron ore and scrap iron to the extent of half our make of pig iron. In the case of other metals, copper, lead, zinc, tin, to say nothing of the rarer metals, antimony, manganese, platinum, we are almost entirely dependent on importation. But our industrial workers must not only have the materials of their industry, they must be fed and housed, and in 1913 we imported £290,000,000 of food and tobacco, which represents probably from two-thirds to three-quarters of the consumption of the country. For timber for housing and for other industrial purposes we imported nearly £40,000,000, which represents far the larger part of the timber used; we also required other raw materials, making our total imports of food, drink, tobacco and raw materials over £570,000,000, but in addition, of articles classed as manufactured, we imported over £55,000,000, which for purposes of our industry were really raw materials such as unmanufactured iron and steel, copper, tin, lead, zinc, leather, oilseed cake and other matters. Thus of our total imports in 1913 of nearly £770,000,000 at least £645,000,000 were needed to feed, house or equip our industrial activity, leaving about £125,000,000 which might possibly be considered as not essential to our great industrial activity, and this is a great over-statement of

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the case, for of the imports which we can fairly classify as manufactures many are really used in making the final industrial product. Thus paper, chemicals, dye-stuffs, painters' colours enter into further production.

In 1913 there were twenty-seven kinds of manufactured products imported into this country, totalling about £117,000,000, none amounting to less than £1,000,000, and in the same classification our exports amounted to £314,000,000; thus these imports were only 37 per cent. of the same class of exports, showing that generally we had no reason to fear their competition with our industrial production.

The mental inability which we experience, which makes it difficult to impress on some people the necessity for mutual dependence between nations, as opposed to separate self-containing resources, is due partly to the lamentable result of the war. It has left an atmosphere of suspicion and resentment which makes men apprehensive that what with new methods and new ferocity in waging war we may be in danger for our national existence, if we look beyond our own limits for the means of subsistence. I think I have made it clear that this country cannot possibly subsist and maintain a population of forty-five millions unless it relies on the co-operation of the world.

It is not the danger of hostility from one nation or from a combination of nations that we have chiefly to fear. We have to fear that if we refuse international co-operation in peace we may find ourselves not only isolated but reduced to serious economic straits.

Take the case of grain—we now rely on the harvest of the world.

In 1913 we imported nearly 200,000,000 cwts. of grain and more than 18,000,000 cwts. of flour.

The principal quantities were imported from the following countries in round numbers :

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					Grain and flour cwts. (ooo's)	
Argentina	...	...	...	60,000	28	per cent.
U.S.A.	...	...	...	54,000	25	„
Canada	...	...	...	30,000	14	„
India	...	...	...	22,000	10	„
Russia	...	...	...	16,000	7	„
Australia	...	...	...	14,000	6	„
Germany	...	...	...	6,000	3	„
					202,000	93 per cent.

Thus we see how widely our sources of supply were distributed, how independent we were of any local failure of harvest, about one-third of our imports being drawn from the Southern hemisphere and one-third from our Colonies and Dependencies.

If we take wheat and wheat flour which are the principal breadstuffs consumed here we have the following results :

Total wheat and wheat flour imported :

		1913	1917	1918	1919
Cwts. ooo's.		118,000	105,700	83,000	89,100
U.S.A.	...	44,600	62,200	42,700	42,000
Canada	...	21,500	22,400	21,500	23,500
India	...	18,800	2,800	700	—
Argentina	...	14,900	6,700	14,500	6,900
Australia	...	10,400	11,000	3,600	16,500
Russia	...	5,000	—	—	—
Chile	...	750	—	—	—
Germany	...	550	—	—	—
		116,500	105,100	83,000	88,900

If ever a severe strain could be put on any country in the matter of food supply, the conduct of the war with its submarine campaign and the demands on our shipping for the general needs of our Allies, with the curtailment or cessation of many of our previous sources of supply, imposed such a strain here during the war and at its close.



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Thus in 1917, in spite of the complete loss of wheat from Russia, Germany and Chile, amounting to nearly seven million hundredweights of wheat and flour, or 6 per cent. of our total imports, and to a loss of wheat from India, Argentina and Canada of about eighteen million hundredweights, a total loss of more than 21 per cent. of our imports, the supplies received from the U.S.A. reduced our loss to about 10 per cent. In 1918 our total imports of wheat and flour were about 84,300,000 cwts., a shortage of nearly 34,000,000 cwts., or a falling off of 29 per cent. on our imports of 1913. This was a much more serious loss and was largely due to the great falling off of shipments from the U.S.A. During the five years of the war we received on an average from the U.S.A. 53 million cwts. of wheat and flour; thus 1918 fell short by 10 million cwts. of the average, and had we received the same amount as in 1917, namely, 62 million cwts., we should have suffered on the whole no very serious reduction of our pre-war total importation of 1913. If we examine the fluctuations of our other principal sources of supply, we find that Canada, on the average of five years, 1914-18, sent us  $25\frac{1}{2}$  million cwts. of wheat and flour, and in 1918 fell short by 4 million cwts. Argentina sent us on an average nearly 9 million cwts., and in 1918 sent us  $14\frac{1}{2}$  million—an improvement in the average of  $5\frac{1}{2}$  millions. On the other hand, India, which sent an average for the five years of 6.7 million cwts., only sent 700,000 cwts., a falling off of 6 millions. Australia, whose average export to this country was 6.3 million cwts., sent us 3.6 million cwts. in 1918. But, on the whole, the fluctuations of the various sources of supply tended to balance each other, and the wide area from which we drew averaged the loss.

If we turn to the overseas supply of meat during the war we find that in 1913 we imported about 23,600,000 cwts., of which the following came from these countries :



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				000's cwts.		Per cent.
Argentina	...	...	...	8,700	...	32.6
Australia	...	...	...	3,800	...	16
U.S.A.	...	...	...	2,700	...	11.4
New Zealand	...	...	...	2,500	...	10.6
Denmark	...	...	...	2,500	...	10.6
Uruguay	...	...	...	550	...	2.3
Canada	...	...	...	340	...	1.4
				21,090	...	85 p.c.

In 1918 we imported about 25,200,000 cwts., of which the following quantities in round numbers were received as follows :

				000's		Per cent.
U.S.A.	...	...	...	14,160	...	56
Argentina	...	...	...	4,230	...	16.7
Canada	...	...	...	2,470	...	9.8
New Zealand	...	...	...	1,690	...	6.7
Australia	...	...	...	1,240	...	4.9
Uruguay	...	...	...	700	...	2.8
				24,490	...	97 p.c.

Thus we see that while there was a considerable shifting in the proportions which various countries sent us, yet, apart from Denmark, which was seriously affected by the war, the other countries still kept the lead and sent us 97 per cent. of our overseas supplies. It may be safely asserted that in the case both of cereals and of meat, had not this country by the policy of the open door practised on the most liberal scale and with its consequent development of ocean shipping fitted up for refrigerating meat, and of capital applied in countries like Argentina to cattle ranches and mutton-producing, the Allied nations would never have stood the strain of the war. Not that I should wish to advocate the open door policy with a view to security against possible future wars, a policy which treats

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industry and commerce as defences against war, and not as extended pledges for universal peace. Such a policy is, in my opinion, the result of a faulty estimate of the probable future relations of the world and of the moral and intelligent considerations which should guide our actions.

Great as I believe the economic advantages of a Free Trade policy, I consider its moral advantages as leading to the recognition of international solidarity and as breaking down the barriers of national selfishness to be the main arguments on which we should rely to bring about that general acceptance of reciprocal national obligation which is far more operative for the future harmony of the world than any paper League of Nations, which does not carry with it the sympathetic goodwill of the Governments and still more of the whole brotherhood of nations.

Mr. J. A. HOBSON then read his paper on

### **The Open Door.**

THE term "Open Door" is sometimes used to express the general policy of free commercial and personal intercourse between nations. But by modern usage it has also acquired a special meaning with regard to the economic relations between dominant States and the backward or less developed countries over which the former exercise political control as colonies, protectorates or spheres of influence.

The old colonial system of Spain, Holland, France, Britain, and other colonising countries was frankly based upon monopoly and the "closed door," an exclusive or preferential control over import and export trade, the exploitation of mining and other natural resources in the primary interest of the ruling country, navigation laws to secure a monopoly of colonial shipping, and an enforced subjection of native labour to the profitable ends of the Imperial Government or its concessionaires. This close

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system partially broke down in the later eighteenth and the nineteenth centuries. France, Spain, Portugal and Holland lost the greater part of their seventeenth-century empires, partly by process of political liberation, as in the case of Spanish America, partly by absorption into the bodies of the British Empire and the United States. The continual enlargement of the British Empire during the nineteenth century made for broader and freer commerce between the countries passing under her control, even before the adoption of a definitely Free Trade policy. During the latter half-century the British Imperial policy was in form and substance one of the Open Door. But the new competition for colonial empire which began in the 'seventies and became increasingly severe in the 'eighties and 'nineties, primarily stimulated by the rapid industrial development of European countries with the increasing demands for profitable export trade and for areas of lucrative investment, revived in many quarters the policy of close colonial possession. The active prevalence of Protectionist doctrine led the Protectionist states to endeavour to secure special preserves in the tropics and elsewhere from which to draw exclusive supplies of foodstuffs and raw materials, and into which to pour their surplus manufactured goods, with the attendant opportunities for profitable employment of their national savings in countries within their own political system. Since the number of favourable opportunities was restricted, many of the choicest countries being already secured, the rivalry for colonies, protectorates or spheres of preferential trade in Africa and Asia began to press dangerously on foreign relations. It was then that the principle of "The Open Door" first figured openly in international policy, in the Berlin Congress of 1884-5, for settling the conflicting claims and interests of European Powers in the Congo Basin. The following applications of the principle were



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made: trade was to be free to all natives in the Basin of the Congo and in certain territories east and west to the Indian and Atlantic Oceans; free access to ports and to the Congo and its affluents; equal navigation fees to cover costs of improvements; no import duties, no commercial monopoly or privilege; foreigners to have the same rights within each region as the citizens of the sovereign power; the execution of these provisions to vest in an international commission. This commission was never appointed, and later on, in 1890, the Brussels Anti-Slavery Conference sanctioned a 10 per cent. import duty for the Congo zone. But this Act brought a large section of tropical Africa within the operation of this equal policy.

Other treaties between several European nations have adopted the principle, the leading cases being the extension of the African policy by agreement of England and France in 1898, and the Algeiras Congress in 1906. In this latter application of the policy to Morocco a low uniform import tariff applicable to the goods of all nations, equal arrangements for foreign contracts and concessions, and a State bank under international control were the chief provisions. This policy, never effectively carried out in Morocco, has now been abrogated, Morocco passing into the French fiscal system as a colonial possession. But the most important assertion and adoption of the principle was in the case of China, when in 1899 Mr. Hay, Secretary of State for the United States, wrung from the other reluctant Powers their consent to abandon the policy of political and economic grab. The story may best be told in the following passages from Thayer's "Life of Hay":\* "After the Japanese defeated the Chinese in 1894 China lay like a stranded whale, apparently dead or dying, and the chief Powers of Europe came, like fishermen after blubber, and took here a province and there a harbour, and were callous

\* Vol. II, p. 240-243



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to the fact that their victim was not dead. They not only seized territory, but forced from the Chinese concessions for mines, railways, commercial privileges and spheres of influence. From the time that Hay became Secretary he strove to keep intact the political integrity of China and to persuade all the Powers to maintain there the policy of the Open Door." . . . "Not one of the Governments concerned wished to agree to it, each saw more profit to itself in exploiting what it had already secured and in joining in the scramble for more. But not one of them after Hay had declared for the Open Door dared openly to oppose the doctrine. It was as if in a meeting he had asked all those who believed in telling the truth to stand up; the liars would not have kept their seats."

Thus was secured a pledge from the nations holding "spheres of influence" in China to maintain the Open Door with reference to customs, harbour dues and railroad rates. Japan and Great Britain, in the preamble to their treaty of 1902, further asserted their interest in "securing equal opportunities" in China and Korea "for the commerce and industry of all nations."

How much of this Open Door in China now stands in face of the demands of Japan forced upon China during the Great War, the concessions to Japan in the Versailles Treaty and the admission of "special interests" for Japan in the Lancing-Ishii Treaty, lies outside the limits of my paper to discuss. But it appears as if the door were closed in Eastern Inner Mongolia, South Manchuria, Fukien and Shantung, not only for trade but for mining, railroad and other developmental work.

So much may be said by way of historical introduction to the problem which confronts us. It is, as we see, not exclusively a colonial policy that is in question, for China is neither colony nor protectorate, it is the economic policy of civilised nations in their treatment of backward nations.

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Nor is it only a question of commercial intercourse. Investment of capital and developmental work play a more dominant part in the direction of this policy than does ordinary commerce. The growing dependence of the populous Western countries upon the rich and various products of Africa, Asia and South America to feed their people and supply their factories and to furnish markets for their surplus manufactures and capital is the largest single factor in modern world-politics. For in addition to the commercial and financial aspects upon which I have touched, it is the main directing influence in those flows of immigration for permanent or temporary settlement which are redistributing so rapidly the population of the world and stirring such acute racial and social problems.

Now there are three conceivable attitudes to be adopted. The first is that of simple *laissez faire*, the old Cobden doctrine of non-intervention. Let traders and investors in foreign lands trade and invest at their own risks, with no right to call upon their Governments to assist them in getting trade or in safeguarding their investments. Trade and investment are matters of private business, and Governmental interference is only mischievous. The logic of this argument appears at first incontestable, but the policy of non-intervention is both impracticable and undesirable. It is impracticable because an effective agreement of all civilised Governments to such non-intervention involves too violent a departure from accepted sentiments and policies, while any country which adopted it without such general agreement would appear to put its nation at a disadvantage. It would be undesirable because experience shows that traders and investors, thrown on their own resources with a free hand to push their profitable interests, have frequently pursued a policy of plunder, enslavement and even extermination in pursuance of quick gains, thus wasting the natural resources of the countries and stirring

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sentiments of hatred and hostility in the native populations which endangered amicable relations with all foreigners.

Non-intervention being thus ruled out, can any safe or equitable policy, an Open Door, emerge from the separate conduct of the several civilised States? Great Britain, Germany and Holland were the only countries with large colonies which professed this liberal principle. Germany's colonies have now been parcelled out among countries, none of which, except Great Britain, profess to keep an Open Door. And recent administrative action of our Colonial and India Offices, to say nothing of the preferential tariffs of our self-governing Dominions, has closed the Door for certain important lines of trade by levying export taxes on palm kernels, raw cocoa and jute, to be remitted when these products are exported to other parts of our Empire. Apart from the dangers of an early reversion to a general policy of protective tariffs for this country and an extension of Imperial preferences, there are the more subtle proposals for the exploitation of our Imperial resources in Africa and elsewhere by financial syndicates marketing their products exclusively or preferentially within this country. To some considerable extent the principle of the Open Door has, in every country professing it, been evaded or qualified by such subterfuges. But the adoption of such an avowed policy by this country in control of one-fifth of the habitable globe would be a reaction of the most dangerous moment, imperilling the cause of pacific internationalism more than any other event.

The Open Door can only be obtained and secured by directly international agreement and co-operation. Now, having regard to the part which the rivalry in colonial policy for economic purposes played in the under-causation of the Great War, it was anticipated that in any substantial settlement the preventive virtue of an Open Door must obtain clear recognition and be expressed in the arrange-



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ments for dealing with the derelict territories of the German and Turkish empires. This expectation found firm, though not sufficiently precise, expression in those Points and Conditions of peace laid down by President Wilson and offered by the Allied Governments to the enemy as the basis of the peace terms. "The removal so far as possible of all economic barriers and the establishment of an equality of trade conditions among all the nations consenting to the peace and associating themselves for its maintenance" stands as Point 3, while number four in the Five Conditions of September 27, 1918, reads thus: "There can be no selfish economic combinations within the League, and no employment of any form of economic boycott or exclusion, except as the power of economic penalty by exclusion from the markets of the world may be vested in the League of Nations itself as a means of discipline and control."

Now since the Covenant of the League is the first formal attempt to enrol the nations in the common cause of international equality and co-operation, it was to be expected that a serious and systematic attempt would be made to adopt and apply this healing and uniting economic policy. And the document itself contains clear indications of an endeavour towards this end on the part of some of those responsible for drafting it. Among the general provisions for the conduct of the League is one which declares that the League "will make provision to secure and maintain freedom of communications and of transit and *equitable* treatment for the commerce of all members of the League." This provision, having chief regard to inter-European trade, could not perhaps be expected to adopt the full form of an Open Door. But I cite it because it contains two sinister qualifications which we shall see impair the application of the principle in dealing with the mandatory areas. One is the use of the slippery term "*equitable*" instead of the term "equal." The other is the implied exclusion,



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even from this equity, of nations not admitted as members of the League.

But the signal failure to apply the principle appears in the conditions for operation of the mandates. It will be remembered that the German and Turkish territories distributed under mandates fell into three classes. The first contains countries formerly under Turkish rule which are to be reorganised provisionally as independent nations subject to "administrative advice and assistance" by a mandatory Power. Here there is no reference either to equal or equitable trade relations with other members of the League, and apparently it would be competent for these quasi-independent Governments to give exclusive or preferential treatment to members of the mandatory power in the way of import duties or concessions, or to make any other discriminating arrangements they liked, with (or without) the assent of the mandatory power.

"Other peoples, especially those of Central Africa," are formally brought under the Open Door policy by an extension of the provisions of the Berlin Act. It is explicitly asserted that these provisions "will secure equal opportunities for the trade and commerce of other members of the League." The third class, including South-West Africa and the Pacific Island colonies of Germany are simply handed over "to be administered by the laws of the mandatory as integral parts of its territory, subject to the safeguards above-mentioned in the interests of the indigenous population." Now "equal opportunities for trade and commerce" are carefully distinguished from these safeguards of native interests. These countries are simply to pass into the protective fiscal systems of South Africa, Australia, New Zealand and Japan. Australian statesmen lost no time in asserting this claim. The net effect of this disposal of German colonies is a reduction of the Free Trade area in the world by taking countries from an Open

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Door policy to put them under a protective and discriminative system.

As regards the one class of mandates where "equal opportunities" are asserted, it will be observed that they are confined to members of the League, thus excluding and driving into a hostile economic and political alliance the ex-enemy countries and Russia, and that no provisions are laid down for equal opportunities for investments, public contracts and concessions in these undeveloped countries. Moreover, unless direct control of the administration of the import and export trade of these mandated areas be vested in an International Commission, there can be no security against concealed preferences and other obstacles to equality of trading, which will certainly be practised by mandatories whose own domestic and colonial systems are based upon Protection. And there is no proposal for the establishment of such an International Commission.

If the mandatory policy of the League is to be made conformable to the principle of the Open Door, it must secure, by some effective international control, first, that all mandated areas are safeguarded against preferential trade and exploitation by the mandatory Power; secondly, that these markets for trade and investment are open upon equal terms not only to "other members of the League" but to all outside peoples.

So far I have treated the issue from the standpoint of the rights and interests of the advanced nations with a view to the fullest participation of the outside world in the resources of backward countries and the prevention of the dangers arising from Imperialistic rivalry. But the mandatory policy is expressly urged in the Covenant upon the ground that "the well-being and development of such peoples form a sacred trust of civilisation," that is to say, that while there are three distinguishable interests, viz. that of the mandatory Power, that of the general body of

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nations in the League, and that of the people of the mandated country, the interests of the last should form the first consideration. Now it is manifest that the Open Door policy, consistently applied under international supervision, forms the best security for a weak and backward people against those dangerous practices of spoliation and virtual enslavement which history, ancient and modern, has shown to be attached to colonial Imperialism in the hands of every Imperial Power, ruling by its own right and under the powerful pressure of financial and commercial nationals. It is a vital interest to the natives of these countries that they are allowed to trade freely and on equal terms with all the outside world, and that the development and operation of their mines, railways, ports, plantations, etc., shall not be profitable preserves for nationals of the mandatory Power, but shall be open to the freely competitive enterprise of the whole outside world. Only thus can the aborigines be protected against sweating or enslavement, only thus can they develop and market their national products to the best advantage of themselves.

The Open Door is thus the best safeguard against a recurrence of the crimes and cruelties, the slavery, war and waste which have blackened every page of the history of Africa during the centuries of contact with civilisation.

There is one other aspect of the Open Door policy which I approach with diffidence because it cannot be ignored. If the best and most fruitful development of backward countries for the good of the inhabitants and of the commercial world is the substance of this policy, it involves not only the equal rights for trade and investment but for immigration and settlement—where the development of the country requires such help from outside. No country with rich undeveloped natural resources which its people is unable or unwilling to exploit has any natural right of absolute ownership which justifies it in excluding



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labour which desires to come in from outside in order to work these neglected resources. No such national individualism or absolute self-determination can be maintained as against the general needs and interests of mankind. But if this is true of a rich backward country under its own independent Government, it is equally applicable to such a country under the political control of an advanced country. The latter can claim no right to refuse reasonable access to outsiders who seek settlement either as traders, prospectors, engineers, business managers, or labourers. The free admission of outside labour as well as of outside capital is often essential to the development of such countries. The chief episodes in history have been the movements of populations from poorer or densely peopled lands into rich or more sparsely peopled, and the resistance to such flows has generally been the chief cause of conflicts. If the Open Door is to be an efficacious policy for peace and productivity, it must contain measures for the reasonable regulation of this immigration. It may well prove the most difficult aspect of that policy, involving, as it must, powerful interests and sentiments outside the purely economic sphere. The term "Asiatic labour" has a passionate import throughout our Dominions and the United States. And I do not here discuss the policy of virtual exclusion exercised by these white men's countries. But the more rigorous such policy of exclusion becomes, the greater the pressure from these large storehouses of migratory labour for access to tropical and other lands which white nations control but do not occupy. The direction of such voluntary immigration into countries which require such labour, the conditions of the contracts under which they work, the arrangements for their settlement or their repatriation, their relations with the natives of the countries, should certainly be vested not in the hands of a mandatory Power but in those of an Inter-



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national Commission. But such reasonable liberty of immigration, as a plank of the Open Door, involves a more enlightened economic policy than has commonly prevailed in Governmental supervision of Imperialist States over the schemes of indentured labour in their remote colonies and protectorates.

Indeed, in certain influential quarters there is a disposition frankly to accept in theory that view of the proper place and function of the lower races which has usually prevailed in practice, viz. to make these lower races the hewers of wood and drawers of water for a world aristocracy of white peoples. Here is a plain suggestion from the pen of Dr. E. J. Dillon :\*

“The continuity of human progress depends upon labour, and it is becoming more and more doubtful whether the civilised races of mankind can be reckoned on to supply it for long on conditions akin to those which have in various forms prevailed ever since the institutions of ancient times. If this forecast should prove correct, the only alternative to a break in the continuity of civilisation is the frank recognition of the principle that certain inferior races are destined to serve the cause of mankind in those capacities for which alone they are qualified and to adjust social institutions to this idea.”

Now if the principle of the Open Door is to prevail, it will have to do battle with various forms of servitude and parasitism which may even claim the sanction and assistance of international Government, unless the League can be taken right away from the control of the old diplomacy and its reactionary attitude towards lower races.

One word in conclusion regarding the scope of the application of the principle we are discussing. Though it comes to the front at the present time with particular reference to mandates of the League, there can be no just reason

\* The Peace Conference, p. xii.

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for confining it to the countries changing hands under the peace treaties. Every equity and expediency of the Open Door is equally applicable to the case of all backward peoples under the political control of any white Power. Under the existing system of separate competing empires, practising selfish and oppressive economic policies, there can be no security for the peace, good order and sound development of large areas in which the whole world is closely interested. The extension of the Open Door and the supervision of that policy by an international authority are the only adequate safeguards against present waste and future conflicts due to the selfish and shortsighted government of backward countries. Great Britain, which has long practised the Open Door policy in her colonies and protectorates, might well set an example in inviting the Commission of the League responsible for supervision of the mandates to extend their control over our tropical possessions. Unless the whole of tropical Africa is brought under this uniform control much trouble must necessarily arise in securing the conditions laid down in the Covenant for the protection of the interests of the natives and for equality of trade.

The Open Door should be generally admitted as the first condition of all sound intercourse between civilised and backward peoples. Through that door should pass freely, from all quarters of the earth, goods, capital, knowledge, skill and enterprise under the best safeguards that can be devised by an impartial international body.

Dr. J. C. Kielstra read a paper on "The Open Door Policy in the Colonies."

### **The Open-Door Policy in the Colonies to Increase World Production.**

**By Dr. J. C. KIELSTRA.**

FREE TRADE and Open Door are, on the same grounds, as desirable for a colony as for every country. To produce

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that which circumstances are most favourable to, to buy in all other cases where commodities are cheapest and best obtainable, to acquire means for the working of the natural resources of a country and, if necessary, to get them where they are to be obtained on the best terms, is, for a colony, as profitable as for any other region. If there were no special points of view in this matter, there would hardly be any reason for treating the open-door policy for the colonies in a separate paper.

When, however, the question is connected with the idea of the possibility of increasing the world production in general, there is reason for looking into it more closely. There is, in fact, a certainty that the produce of those territories that form the colonial dominion of different powers can be made to attain greater results than have been attained up to now, if only the co-operation of the natives were obtainable. It is a well-known fact that they do not even try to make use of every available opportunity to increase production, and only restrict themselves to the supply of their natural and daily wants under existing conditions; in any case not to much more than that. And now that different reasons, such as the destruction of the means of production during the War, the loss of commercial relations as resultant causes, or the revolutions arising therefrom, the mentality of a great part of the working population, seem to check production in the old world, an inquiry into the means for increasing it in younger countries appears to possess some real value.

The superficial observer who sees that native populations, as a rule, neglect to make a full use of their economical opportunities soon finds an explanation. For him is it simply "native indolence" that prevents increase of production: the solution of the problem is found in this characteristic, in this dogmatic, assertion.

But why should one be obliged to admit the general



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acceptance of such "indolence" among the native population? Perhaps on the ground of their environment in which the luxurious nature of the tropics, owing to its climate and its wealth, causes such immediate wants as house room, clothing, house-warming to be less acutely felt? On the other hand, there is the fact that the inhabitants of the temperate zones, when transferred to the tropics, do not seem to feel that influence. The needs of the European and his family are different in such surroundings to those in his native country, certainly not fewer, as is well known to anyone who has visited tropical lands.

"Indolence" might only then be admitted as a racial characteristic for the nations inhabiting the colonies; one might think of something, like Oriental tendency to contemplation, to a peaceful life above material prosperity, coupled with exertion. And yet facts can be mentioned contrary to this supposition, namely, the case that, in temperate zones, there are regions of which the inhabitants have, during years, remained indifferent to the brisk economic life outside their environment, and at a given moment are drawn into it, and thereafter feel themselves immediately and fully at home in it. An example of this is to be found in the writer's native country in the "hinterland" of the provinces of Overijssel and Guelder, where the peasantry lived in a condition bordering on that of the Middle Ages, and only a short time ago turned, in a very short period, to modern farming with excellent results. And to admit "indolence" as a racial characteristic with colonial races, owing to their apparent inertia, seems hardly permissible in view of such ascertained facts.

For anybody who wishes to pierce to the root of the matter, and seeks an explanation of an *economic* phenomenon on economic grounds, it is evident that this "indolence" is the result of certain causes. On closer observation one notices first of all that the native is really



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inclined to exert himself for production, if it is only for the obtaining of goods that he considers absolutely necessary. Hence we may conclude that there is an economic cause, at least beside, but probably instead of, a personal or a racial characteristic, to account for the disinclination to increase production farther than is done. This cause would therefore have to be found in the fact that no further wants require immediate satisfaction than those provided for, those known, or those felt.

To account for this negligence one must further consider the method of production utilised by the native population, which, in great measure, has the character of a society in which self-producers are self-consumers. The most typical form of this kind now met with is this, that certain groups which may be considered as economic units (family, tribal, or village ties) cultivate on a mutual principle what they require as food, manufacture clothing such as they wear, build the needful dwellings, defences, and whatever else they desire. Those who form part of such an economic unit use and consume their productions. As the producers merely have in view the immediate use of the produce of their group, it is clear that with respect to the amount produced they are guided by the consideration of what the unit requires in food, for instance, till the next harvest, of house-room solely for the number of the members of the family, of clothing as to what is worn, and so forth with regard to what is produced. No other motive is felt for continuing further production when for this economic unit or group the limit of requirement has been reached.

This form of production is not decisive with regard to the prosperity prevalent among the said tribes. If on the one hand isolated tribes are found living in a deplorable condition, there are, on the other hand, instances to be seen of greater prosperity on the same system of pro-

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duction. This is dependent only on the resources existing in the parts inhabited. A fruitful soil will yield richer harvests, whatever the means of production may be, than a barren one; good woods allow of better working; metals are present or not in the soil, no matter what the means of production employed. But be this as it may, as a rule, these resources will not be worked any further than is necessary for the wants of the producers. Besides, one is limited to the local resources found on the spot. New wants, for the satisfaction of which other goods would be necessary, cannot, under such circumstances, arise. They will not be felt. Under favourable circumstances a more plentiful or a more refined production of some articles can be noticed—the handsome weapons and dwellings of many a primitive tribe point in that direction—but of an effort to exert oneself to the utmost, there is no question; neither directly nor indirectly is there a trace of improving the means of existence by an intenser production from an economic point of view. And from what has been observed among existing tribes, under similar conditions, one is led to expect that they have long lived in somewhat the same economic state.

Should there be some whose prosperity is comparatively great, yet from the point of view of world-production, seeing it is restricted to the group itself, this prosperity is of a rather insignificant kind. There remains a more or less large amount of available productive power unemployed, which might be of use for world-production.

This form of political economy is, if it exists anywhere, in a pure form, very rare. Necessity to provide themselves with indispensable means of existence, especially salt, drove the isolated inhabitants of the interior to the coast, and if other tribes were found there, it brought them into contact with those inhabitants. And it was only with their co-operation, either active through exchange

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for other goods, or passive by allowing the natives of the interior to extract salt without let or hindrance, that these can obtain the necessary supply of salt, which liberty was often only to be obtained against indemnification.

This contact often led to the exploitation of the primitive inhabitants of the interior by those of the coast. But this contact compelled them in their own productions to bear in mind the desirability of their producing more goods than were needed for their more immediate wants. The islanders thus came somewhat into contact with world-production, although it was probably only in a small way.

Besides, the colonial trade of the Western Powers aimed at obtaining the products of foreign countries, and for this reason sought to come into contact with tribes in regions from which the coveted goods were to be got. This contact led during a number of years to exploitation being practised on the native population. The monopoly trade, or the forced supply of goods either without payment or with a one-sided fixed indemnification and such like, benefited exclusively the colonising States or the companies privileged by them. But hereby an infringement could also be made on the aforesaid system of self-producers being self-consumers. Compulsion was exercised to bring about further production than was necessary for consumption by the producers themselves. And contact was obtained with other nations, other goods were seen, and even sometimes some object or other was parted with in exchange for another object.

For world-production this method of colonisation is of much more importance than the above-mentioned contact with other tribes. The European markets came, at small sacrifice, into possession of valuable articles, and though the method of production used did not by any means yield what might have been obtained by other methods, yet the supply was greater than before.



However, there is no reason for entering into this side of the question any further. These colonising methods have been entirely forsaken, and from a Dutch point of view they will not find a single defender. They have only been mentioned to show how contact with outsiders, however singular, gave an impulse to a higher application of productive power than was necessary for actual self-consumption.

Attention must not be drawn to the way in which contact was obtained, but to the fact that it was obtained. Thereby an increase of production was brought about which has been of importance to the markets of the world.

There was, however, in principle a mistake, which consisted herein, that there was no interest for the natives in the colonies to enlarge production; they only did this as long and as far as they were compelled to do so, but otherwise production remained what it had been—viz., the care of providing for their own wants. For the application of further productiveness there arose in their midst a reason. The system, apart from the serious moral objections to it, was, from an economic point of view, objectionable, because the application required labour from European countries for work which in itself was non-productive, work of compulsion and supervision, but work that was not unprofitable for these countries; unproductive, however, from the point of view of world-production.

All this, however, belongs to the past. Colonial products for the world markets are now obtained without compulsion. We may distinguish two methods of reaching that object:

The first is that of pure trading. Goods, which the natives cultivate or collect, are bought, and the trader who thus obtains them, exports them, and conveys them to the most promising market. The native is encouraged, by the prices paid, to cultivate or collect products, and to sell



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them. He is absolutely free to do so or not. The other method is that in which the European planter undertakes the production of produce either cultivated or manufactured under his own supervision, and afterwards puts it on the market.

The first method is not always serviceable. It can only be applied for products that the natives have cultivated, of which the production requires little or no technical ability, or that have to be collected from nature.

The second is used for goods that require the employment of technical knowledge or capital of the kind and amount that the native community cannot provide itself with; this is also the case with respect to the above-named products, with the object of obtaining either a certain quantity of such products at stated times, or products that answer to certain requirements, for instance, of equivalent value for further manufacture, or for the demands of the market in other places.

The native community lends its assistance in this case by providing unskilled labour in general, and sometimes by the temporary cession of ground. This assistance is only obtained by the prospect of earning wages, or being compensated for the use of ground; this co-operation is entirely of a free kind.

It was to be expected that, seeing the basis on which the assistance of the natives is obtained—namely, the profit offered, that they would apply themselves cheerfully and industriously to obtaining it. Experience, however, teaches otherwise. Complaints arise on all sides from the colonies that this profit seems to be coveted only very partially, that even then economic possibilities are neglected, that by no means all the productive labour available is forthcoming.

When these complaints refer only to the collecting of produce they are about exploitation of the best territories,

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about love of ease that shuns further exertion, and thereby causes the loss of disproportional profit. If the complaints refer to the delivery of products cultivated by the native population, then there is a want of due care for the products, or there is no certainty of regular delivery or of the quality required, while the rise of prices sometimes invites, as it were, a fall of supply instead of provoking a rise. Finally, in unskilled labour the output, if not sharply watched, falls beneath expectation, and in this case the rise of wages diminishes the stimulus to production.

The explanation of this phenomenon—if the idea of “indolence” be eliminated—can be found in the process of production of the native population.

The following considerations must be borne in mind. Neither trade nor participation in the productive enterprises of Europeans can bring about an immediate change in the production of native communities.

To arrive at exchange or purchase it will be necessary that what colonial trade offers to native communities should be something that arouses their interest, so that they may be inclined to collect produce found on the spot, or to plant something they cultivate or can cultivate. It is thus not very likely that this offer should consist of goods in daily use, such as foodstuffs, building materials, and suchlike. The economic groups will probably continue to produce these articles themselves, even if commercial transactions are no more the exception. If anything is to reach them to replace their own products, which in clothing, for example, can very well be the case, then the supply must be large and regular, so as to induce the native producer to stop making those goods himself and to produce some other article in order to obtain what he wants in a sufficient quantity. With respect to what are indispensable, common foodstuffs, it is not likely that this will soon, if ever, occur. So a state of things arises in which the

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economic groups produce goods that their members use in daily life, thus those most indispensable to them for direct consumption, and that the proceeds of the further trouble taken are for the provision of additional wants, in any case for less pressing ones than those provided for by their own production in the locality. But is it reasonable to suppose that, under these circumstances, they will make use of their whole productive powers? Is it to be expected that in the providing of these less pressing wants more, or even the same, trouble and exertion will be taken as for the obtaining of indispensable goods? Being accustomed to see in concrete form before them the immediate results of exertion and trouble of production, they will also do so with that part of the products that they want to put on the market. They have an object in view, and direct their exertions and trouble towards it. That is just the reverse with our productions, in which the benefits are first obtained, and out of which the most indispensable goods are first acquired and afterwards, as far as circumstances permit, the less indispensable ones.

The same thing occurs when a native works in a European manufactory, or in a plantation. In this case, too, wages are only a means for providing certain wants, represented in a concrete form, but not indispensable. Here less exertion is required than for products of one's own, needed for self-consumption, and thereby indispensable. Neither does the labour supply nor the prestation rise in proportion to the wages offered, but only in relation to the immediate end in view. There is therefore great chance that just as wages for certain sorts of work rise, the object aimed at by the intending purchaser, namely the satisfaction of certain concrete wants, is sooner reached, and thus, contrary to what the European employer expected, the labour supply and the willingness to work decline.

A change in this can only take place when producing



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and willingness to work are liberated from the idea of satisfying any concrete needs of the workers, when the connection between the two which in the production of self-consumers and self-producers is direct becomes indirect. As a consequence of such a change the consideration of the benefits acquired can only alter in such a way that in thought they are no more divided according to the wants they have to provide for, whether direct by earning them in kind, or indirectly by exchange, but from the place they occupy as a whole, out of which whole can be drawn according to want or wish, in order to obtain what is coveted. Only then do these views suggest automatically, as it were, that more wants may be satisfied, more wishes gratified, as the benefits increase. Then it is conceivable that full satisfaction or gratification begins, though as in our society in general it is never reached, or seems likely to be, need we count upon it being the case in another mould than ours is.

And we shall have to count less upon that idea of satiety and turn more towards what we see in our own society, as the consideration thought of is only possible when there is a general certitude that the most indispensable goods will always be obtainable everywhere. As long as this is not the case, the economic units forming the society on the spot must continue to produce these indispensable goods, under penalty of experiencing exceedingly dangerous crises at every disturbance of any kind. And this will leave its impress on the society, will arrest the full development of productive labour, just as it has done here and there in European countries—we may refer the reader to the instance of Holland quoted afore.

Taking all this into consideration, we now reach the conclusion that, in the colonies, the full application of the dormant native productive labour at present lying useless will only be obtained when they are included in inter-



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national traffic, when trade—not only export and import trade, but also inland trade—shall have been so developed that, at least in normal circumstances, one is sure that every market can provide for every want felt. It must not be thought possible that a shortage can occur; should such a thing be threatening, supplies must be at hand in due time. This, in usual circumstances, is the case in our society. It is our wide-spread trade that fulfils this duty. Such an organisation must first be developed in the colonies before they can put forth all their strength.

The way that leads to a growth of world production by the development of the fullest productive powers lurking in the colonies is through the gradual development of trade traffic in those regions. For that purpose that traffic will at length have to penetrate through the whole of colonial society, will have slowly to embrace also all goods that must be produced for their own consumption, as well as imports and exports. Then only can one reckon upon the word “indolence” disappearing, a word expressing non-usage of productive powers by the native population.

Then only can it be expected that these regions too will be able preferably to apply themselves to the production of those commodities for which natural circumstances are most favourable, of which, with equal exertion, the largest proceeds are to be expected, and to obtain by exchange the necessities of life for their own consumption.

As was noticed before in this paper, it is not to be supposed that the native population will give the first impulse to this development. It must come from the outside, and colonial society must slowly see the importance of the change in the aforesaid direction.

One must therefore be mindful of encouraging exchange with the colonies and within them. The former is at first only possible as the work of those traders and trading companies outside the colonies that penetrate into

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the economic life of the natives, and take a fixed place there in order to create or develop barter in native communities. Besides these traders, the opening up of plantations and the establishing of other undertakings under European supervision will co-operate to the same object. Accompanying the supply of all kinds of goods by trade, commercial undertakings, by the earning of an income, satisfy wants created by supply.

If these two do not go hand in hand, no satisfactory development can take place. Trade with the natives certainly admits of great extension, but for exports one remains dependent on the relation of the natives towards each other. Yet in addition to such trade business undertakings which by improved methods make produce and quality certain are necessary to give trade the security it requires. Such undertakings alone, on the other hand, are not more likely to attain that result. They will always meet with difficulties owing to the small inclination natives have for work, and they will remain dependent on costly labour from elsewhere if growing trade does not bring about a disposition to differentiation of work in native society, and in consequence the question does not arise, on all sides, whether it is not easier and more profitable to turn to new forms of production. Should, then, men of enterprising spirit be at hand, it will be found that labour is also to be got.

At this point the subject treated in this paper touches the question whether Free Trade or Protection is the best means for obtaining an increase of world-production. In the interest, both of the required conciseness of this paper (the arguments for and against Free Trade or Protection being esteemed sufficiently known), and as the question only occurs practically in this form, nothing else can be required of the writer than a treatment of the subject from both points of view, especially colonial ones.

These points of view are the following :

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The first is that of protection of trade, or traders, by the Motherland, either by monopoly or differential levies, or by support to home shipping by bounties, differential levies, or limiting the shipping trade to the national flag only.

This is thus pure Protection, though in a particular form, as it does not fall to the share of the trade or industry in the area of production, but to a group, not politically but economically strange to it.

The second point of view is somewhat different. Nearly all Colonial Powers have been obliged to take measures for preventing native society, in their colonial territories, from being dislocated, or seriously shocked by sudden, complete inclusion in international traffic in its fullest extent, whereby without preparation they would find themselves opposed to European traders, or manufacturers, intent upon obtaining the largest profits for themselves. This has nothing to do with pure Protection, but is support in international traffic to a weaker group, over against a stronger economic one.

The first point of view gives rise to the following observations :

The colonial trade, especially if it does not restrict itself to exports and imports, lays claim to very special knowledge. Ordinary commercial knowledge is not sufficient: familiarity with local conditions and relations, with native languages, with manners and customs, with economic relations in colonial society, all these are necessary, especially if from trade, influence, such as I have denoted above, is to have any effect on exchange with the natives. In fact, practically this retail trade penetrating everywhere in the colonies is generally in the hands of certain groups, mostly natives or Chinese, who entertain business relations with European commercial houses.

There is less reason for taking the trouble to form such connections in proportion as trade sees a chance



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of acquiring profit without them. The favouring of national trade has a tendency to make trade apply itself less to penetrating into native production than when it has to make head against competition. The result of this is again that native production will not so soon develop produce for exchange as otherwise might have been expected. The tendency of trade to secure itself a place everywhere in native society will be smaller.

The same holds good in the limitation in the numbers of plantations and factories as a result of the exclusion of foreign capital and foreign enterprise. Those manufactures that, under these circumstances, find a place in the colony, will only require a certain number of hands. When these are found the state of the remaining field of native society will remain unchanged. The continual demand for workers that causes, among natives, a tendency to seek occupation under European guidance is weaker. And the social differentiation that might be the result of the fact that such enterprises withdraw workers from native production for self-consumption and make them take part in general exchange for the supply of their wants remains only possible on a limited scale.

The influence of Protection on home shipping is felt in the same way. There is also, in this case, a possibility that subsidised shipping will, in the long run, seek in a lesser degree to accommodate itself to local circumstances, as they know that support will still be granted them. And Protection works worse in such a case when foreign shipping is excluded. Then the national shipping lines can leave out accommodation altogether, as one is entirely dependent on them.

The consequences of this will also be felt on the development of produce for exchange in the colonies. Cheap freight, choice of connection in all directions, are a stimulus for enterprising men to settle in the colonies



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and to work their resources, because this increases the chances of profit. Trade, too, can export and import in all directions, where this can take place to the greatest advantage. There will also be an increasing chance that trade will lay itself out for the arduous and trying work of penetrating into native social life.

Every violation of the open-door policy arrests, as it were, automatically, the development of produce for exchange in the Colonies. It retards thereby change of production, which must be carried into effect before the native population will put forth its full productive powers, and in this way prevents increase of world production, which would be the result of the expansion of labour till then unemployed. Such a protection of home trade and shipping is thus to be condemned, seeing its direct economical results. Besides, there are the possibilities that arise owing to the exclusion of other nations on political grounds, and these increase the objections to exclusion from colonial territory. The struggle for expansion of economical relations, which is almost sure to exist in countries with abundant capital or a growing population, will not lead so easily to political friction when, in the colonial territories of other nations, use can be made of such capital or such a population. Then, on the contrary, it is to the interest of every one that such expansion should take place in the most peaceful manner, and this can only be to the advantage of new economical relations.

As the expansion tendency, such as is here meant, will, owing to its nature, easily and even preferably find its way in the direction of unopened territory, i.e. colonies, the acceptance of the open-door policy will strongly contribute, in the future, to the elimination of political friction, not to speak of armed conflicts, between nations. This will certainly be for the good of human welfare, which,

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during a war, experiences, for years, the reaction thereof in the form of diminished production, in the destruction of goods, leaving out of count moral detriment owing to the breaking off of relations, loss of confidence, and such like.

And now a few words on the subject of the measures denoted above, in the second place, namely, those to prevent dislocation of native society.

In the Colonies two forms of production are met with : the native, based upon the needs of consumption, the European, for the market. The methods of the European are full of commerciality, of an inclination to obtain, out of every transaction, as large a profit as possible. Besides, the natives are far behind Europeans in development in every respect.

Just as in our society at present, economic groups of the population are protected by law from exploitation by other groups they regularly come into contact with, so will the economic units of the native population have to find in measures coming from government support against abuses in produce for exchange. No colonial power that has taken the interests of its colonial subjects to heart has neglected this duty. Territories set apart, to which no European trader is admitted, are found; on requests being made for concessions, inquiries are set afoot as to how far an increase of establishments is desirable with a view to the interests of the natives; an economic information service has often been established on behalf of the native population, to train it for the new demands made upon it by produce for exchange; certain regulations about the making up of labour and other contracts with the natives restrict more or less freedom in their conception.

The use or the necessity of such measures needs hardly to be brought to light at the present time, neither does other social legislation. It is necessary, however, to warn against one danger, namely, that native production should

be prevented from giving way to a tendency to change or to an adaptability for new relations. Should one prevent native production entirely, or partly, within certain limits, from coming into contact with other productive methods, then one limits its field and leaves untouched part of its productive powers, and it thus remains stationary at the same level of prosperity. In principle everything in native production remains as it was. And yet it is this change in principle in the native system of production that is necessary in the interests of world-production.

Measures such as are here meant will have therefore to keep in view that, in no case, the maintenance of existing systems of native production, even on a limited scale, may be the object in view; on the contrary, adaptation of the natives to new relations must be aimed at. Therefore no isolation of native groups, but inclusion in produce for exchange, and protection only to prevent their losing ground by that inclusion, and so doing, lose the small productive powers they possess, and protection, too, to prevent their being exploited, and thus their having no reason to adapt themselves as soon as possible and co-operate in world-production with all their dormant powers.

If all colonial powers were pervious to these principles, and made their colonies adapt themselves by means of the general open-door policy, as soon as possible, to the more efficacious European methods of production, and if they made the native population feel the stimulus of their own interests in fully applying its productive powers, then, in the opinion of the writer of this paper, a by no means unimportant increase of world-production might, in the long run at least, be the result. And one has only to keep in mind the real state of things after these years of war to understand how this object is well worth attaining.

The discussion was continued by Mr. Arnold Lupton and M. Pierson.

1955  
October 7

## FIFTH SESSION

*Thursday, October 7*





## FIFTH SESSION - THURSDAY, OCTOBER 7

*Chairman*—Professor GILBERT MURRAY

### *SUBJECT:*

### **Free Trade as a Necessary Condition of an Effective League of Nations.**

MR. CHARLES ROBERTS, having an important engagement, the CHAIRMAN reserved his own remarks and called upon him to read his paper.

### **Free Trade as a Necessary Condition of an Effective League of Nations.**

**By CHARLES ROBERTS.**

MR. CHARLES ROBERTS, formerly Under Secretary for India, said he had been asked to speak on "Free Trade as a necessary condition of an effective League of Nations." The following is a summary of his remarks. He did not claim that the League of Nations in its existing form would guarantee perpetual peace. It was not yet, as it should be, all-embracing, and many of its powers and possibilities were not yet developed or defined. The vision of statesmen had its limits, and the menace of future wars was not averted. But the Conference would accept the League as a real step towards international unity and the main hope for a distracted world. How far did Free Trade work in with that idea? The existing League consisted mostly of Protectionist States, and clearly universal Free Trade was not an indispensable condition for a league of some kind. Nor did he think that the League could in practice, or ought in theory, to join in a crusade against the Protectionist views of its members.

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Tariff policies were recognised as the domestic concerns of individual States, and if the League intervened in domestic concerns it would suffer the fate that befell the Concert of Europe which was established in 1815 as a safeguard for peace. An attempt was made by the ingenuity of statesmen to pervert that Concert into a Holy Alliance for intervening in the domestic affairs of individual States, and indeed the two ideas became confused in the popular mind. Even if practicable, he doubted if such a crusade as had in fact been suggested to them would do much for Free Trade, and it would doubtless wreck the League. But Free Trade was the expression in the economic sphere of the same order of ideas as in the political sphere was embodied in the Covenant of the League of Nations. Moreover, it was clear that the neglect of Free Trade principles was going to increase the difficulties of the League of Nations. Instancing the state of Austria, surrounded by Protectionist new States, he said that tariff wars, commercial jealousies, and economic distress would help to ripen those seeds of war which it was the business of the League of Nations to eradicate. The danger of explosion might have been averted if the statesmen of Versailles had had more thought of Free Trade.

There was one sphere of the League's operations where it could be said with absolute truth that Free Trade was an indispensable condition of its proper working. As Free Traders they must urge with the utmost tenacity that all mandated territories must be regulated on a Free Trade basis on the principle of the open door. To this argument a French critic would say, "Palm kernels." It was true that by differential export duties our Government tried to monopolise in West Africa the oil seeds produced in our Colonies. The French, in retaliation, reserved to themselves the oil seeds produced in French West Africa. As an English Free Trader he appeared in a white sheet. It

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was a bad system, both for the African producer and for the British consumer, and was a violation of our traditional methods of Colonial government. But these duties were not to be in force in our mandated territories. The term "mandatory," though novel in the political jargon of the day, was an old term in Roman law. We must remember that it was of the essence of the idea of a "mandatory" that he should act gratuitously. Any attempt to exploit the mandated territories either by economic duties or by setting up a system of military training for the benefit of the mandatory itself would show that the conception of the system of the mandates had been imperfectly understood. Equal opportunities for the trade of all nations was expressly stipulated for in the case of mandated territories in Africa. But it would be a violation of the mandatory principle if the tariffs of mandated territories anywhere were manipulated in the interests of any mandatory.

The CHAIRMAN then made the following remarks :

It seems to me I may be of more use this morning to the Conference if, instead of expressing at length my own devoted adherence to the doctrine of Free Trade, and my conviction that it was never more potently and obviously necessary for the welfare of Europe than it is now after the war, I try to put before you exactly the situation of the League of Nations, as bound by the covenant, to this question of Free Trade.

I think we must recognise the fact that Free Trade can be regarded in two aspects: First, the purely economic aspect of letting trade find its own level and letting supply meet demand. As far as that goes, I think the League of Nations has nothing particular to say. But the doctrine of Free Trade has another aspect. Every protective tariff is an injury, great or small, to some other nation. Protection is a modified war, the beginning of a



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process of which the logical end is war. From this point of view Free Trade is a principle of international policy, and on this the League has a good deal to say, because the League is definitely intended to deal with every tendency which leads to war between nations. I will venture to read to you a memorandum which I drew up for the International Conference of League of Nations Societies :

The principle of economic solidarity among all the members of the League, and thereby among all the nations of the world, is implied in the ideal of the League of Nations, but can at present only be made operative to a limited degree.

1. Certain definite obligations involving some degree of economic solidarity are undertaken by all signatories to the covenant.

(a) In Article XVI. members agree "mutually to support one another in the financial and economic measures to be taken under this Article in order to minimise the loss and inconvenience resulting." This implies a certain pooling of the losses and inconveniences, so that they shall not fall unfairly on any one member.

(b) In Article XXII. mandatory powers have to guarantee "equal opportunities for the trade and commerce of other members of the League." (This restriction, however, does not apply to Mandates C, the Pacific Islands, where the Australian delegates insisted on keeping their hands free to impose any tariff they pleased.)

(c) In Article XXIII. members agree to "secure and maintain freedom of communications and of transit and equitable"—not equal—"treatment for the commerce of all members of the League."

2. In mandated areas the principle of economic

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solidarity is completely accepted. The mandatory is deputed by the League to carry out "a sacred trust of civilisation." For example: Suppose there are important oil wells in the territory of a backward race which cannot develop them itself nor yet control their development by foreign companies. The League puts in a mandatory to develop these oil wells in the way that is best for civilisation as a whole. Any separate national profit which the mandatory may make should only be in the nature of wages for the service it renders. A mandatory may not exclude or hamper the trade of any member of the League by tariffs, nor yet keep the oil for the exclusive use of itself or its friends.

3. In territories not mandated as a result of the war, but otherwise similar to the mandated territories, such as the pre-war possessions of various States in tropical Africa, it may be taken that, while the covenant is not binding, the rules laid down by the covenant for mandated areas are recognised as good rules, to which approximation should be made as circumstances permit.

4. Among the independent members of the League, protective tariffs are not forbidden, though any tariff which is not "equitable" is definitely condemned, and any tariff that approached towards a "tariff war" would obviously be a cause of action by the League. Communications also must be definitely "free."

5. But while the economic injury of one State by another is thus forbidden, no special rule is laid down enjoining mutual help in economic matters. Consequently, while the stabilising of exchanges and the social and economical reintegration of Europe is urgently desirable on grounds of self-preservation as well as of humanity, such a policy must mainly be advocated on its own merits and not as definitely prescribed by the covenant.

It may, however, be urged that freedom of communica-

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tions is definitely guaranteed in the covenant; that "the mitigation of suffering throughout the world" is recognised as coming within the League's activities; that the refusal to help another nation because it is an "enemy" is entirely inconsistent with the spirit of the League, and, if the nation in question is a member, explicitly contrary to its letter; and lastly, that the machinery of the League is expressly provided for operations of this sort, i.e. for common consultation and common action by all the civilised nations for dealing with any danger which threatens civilisation anywhere. If the financial and economic condition of any part of Europe constitutes a common danger—and no one can deny that it does—it is just to deal with such common dangers that the Council and the Assembly have their meetings.

On the theory of mandates he would add just one quotation to those given by Mr. Roberts. When the German delegates made their protest against the arrangements of the peace at Versailles, they raised a question about the debts of the old German colonies, saying it was unfair these debts should be thrown back upon Germany, and they argued that the powers who took over the territory should take over the debts also. In answer to that contention the Allies and Associated Powers, in an absolutely authoritative document, say that it would be unjust to make the debts of the colonies rest upon the mandatory powers, "which, in so far as they may be appointed trustees by the League of Nations, *will derive no profit from the trusteeship.*" So we have there the definite word of the Allied and Associated Powers given in that solemn way in answer to the German protest, that the mandatory powers will derive no profit from these territories.

In territories not mandated, what is the League to do? The League can do nothing, because these territories do not come before it. The treaty could only deal with the



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territories which were transferred in consequence of the war. It can do nothing directly, but what it could do I think it did. It laid down the right course. I think it would be exceedingly difficult for any nation to go on running protective duties or raising armies by conscription, or anything of that sort, in one African colony because it was an old possession, whereas in another African colony next door it could not be done because it came under the Treaty of Versailles and had been forbidden by the covenant. The League of Nations had set an example; it could not do more.

In regard to the principle of economic solidarity they had agreed in the League of Nations mutually to help one another in economical matters, and I think we are all agreed that the European countries have reached a condition in which mutual help is becoming an absolute necessity. I think we can say that such policy is definitely prescribed by the covenant of the League, and I think it may be urged that freedom of transit and communication also would bring considerable relief to Europe, and if it had been applied at the beginning directly after the war, might have had an enormous effect in diminishing the distress which has occurred.

I think we must be quite clear in our minds that the distinction between nations that are friends and nations that are enemies is entirely foreign to the spirit of the League. Any action against a nation that has once been admitted to the League will be contrary not only to the spirit of the League but to the letter as well. The Prime Minister, in his remarks this morning, said that the extension of the League to embrace all countries of Europe was a primal necessity of civilisation. I agree.

Lastly, I would point out that there is hardly any perfectly clear-cut pledge in the covenant. It is all a question of representatives of nations meeting in council and thresh-



ing things out. There is the one central pledge to use force or the economic boycott against a State which makes war in breach of the covenant. Apart from that, there is hardly a single definite pledge, except the pledge to meet to discuss and thresh things out, always keeping in mind the good of the world. So, if we turn our attention from Free Trade in the strict sense to this extension of the spirit of Free Trade, which asks the co-operation of the nations of Europe in trying to bring about the restoration of credit, the reintegration of society, the stabilising of exchange, the League of Nations can at least say, "If the opinion of the world is ready to undertake a task of this magnitude, we, the League, have at least put in your hands the machinery—machinery that was never there before."

M. Bertin read a letter on the subject of the Channel Tunnel, and the discussion was continued by M. Jouanny, Lord Sheffield, Lord Farrer, Dr. Hertz, Dr. Redlich, M. Raffalovich, Mr. Maddison, Mr. Law, Miss Maud Petre, Mr. C. Bevan, Mr. Rawlings and M. Pierson.

The following papers were written for the Conference on this aspect of the question, but, Dr. Fried and Herr Bernstein not being able to be present, could not be read.

### **Free Trade as a Basis of the League of Nations**

**By Dr. ALFRED H. FRIED**

THE Free Trade movement is a pacifist concern. Cobden's personality has already proved that. This originator of the Free Trade idea was also one of the pioneer protagonists of pacifism in Europe. Since its commencement the international peace movement has also stood for Free Trade. At the first European peace congress, which took place in Exeter Hall in London in 1843, and in which Richard Cobden took part, Free Trade was even indicated

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in a resolution, as the best guarantee of peace. Also the later world peace congresses between 1889 and 1913 were extremely occupied with this question. The congress at London (1890) demanded the reduction of import duties as the first step towards Free Trade, and the Congress of Monaco (1902) declared its sympathy with all endeavours undertaken to advance the cause of Free Trade. In particular the Congress of Rouen (1903) was greatly agitated by this important problem. It congratulated the Free Trade societies on their endeavours, and demanded the help of Pacifists for that movement. They ought to work for the construction of international agreements, it declared, which should lead to a gradual and simultaneous reduction of Protectionist tariffs. In order to organise more intimate relations between Free Traders and Pacifists, the attendance of Free Trade delegates was demanded at all peace congresses. Also a desire was expressed for the creation of parliamentary Free Trade groups in all countries.

The most important expression of this idea is embodied in the preamble to the resolution passed in Rouen. It runs as follows :

“ As the removal of all international customs duties is one of the most important factors of national solidarity and pacification, it must have the same effect in the cause of international unity. If the search for a solution to international differences is a worthy object, it is still better to favour a development of an international state which shall prevent them.”

This paragraph contains the essentials of modern pacifism. Modern pacifism is different from old-fashioned pacifism in this respect, that it does not concern itself with the removal of symptoms, but searches for the cause, and actively combats it. Causal pacifism has taken the place of reform pacifism, (Vidi : “Die Grundlagen des ursäch-

lichen Pazifismus," second edition, Zürich, Orell Füssli, 1916. The Fundamentals of causal Pacifism.) So far as causal pacifism is concerned, war is a consequence of the anarchy at present existing between States. To put an end to all war, it should not concern itself with the creation of judicial institutions (arbitration, etc.) which are substitutes for it. Conflicts born of anarchy are so often threatening for the single State so that they eventually lead to the adoption of force. It is only possible to end war by modifying its causes, by erecting an inter-Statel organisation. Even then, the conflicts between States will not cease, but they will then no longer threaten their existence, as they then arise from an orderly regime. These conflicts, when they are so profoundly changed in all essentials, will become solvable by rational institutions. No courts of arbitration will remove war, not even these well-meant prescriptions and regulations, destined for the moment when the conflicts of dissentients have already become acute. Not only the solution of differences must be regulated, but still more the normal commercial life of nations is to be developed, their active co-operation to be strengthened so far as common action for common interests is concerned, their economic interdependence to be increased, so that common interests will prevail over the particular, and so that an organisation will arise which will surmount the welter of anarchy of to-day.

It is this which is so excellently expressed in the resolution of the peace congress of 1903, when it declared that "it is better to favour a development of an international State which should prevent all wars " than to search for a solution of international problems and remain unconcerned regarding its causes.

The League of Nations Covenant of 1919 does not conform to this conception. It permits the causes of war to remain, and confines itself only to the task of hindering



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its outbreak by setting up obstructionist clauses, which are to be observed by the adversaries in the moment when hostilities threaten to break out. That may render good service in a few isolated cases, but it is not a radical means of ending war in general. It would be too late to bring a conflict into focus if it already imperilled the maintenance of peace. If war is ever to be surmounted, the conflict must be attacked at a stage when it is not yet menacing. Elihu Root, the well-known American statesman, said once: "There are no international controversies that cannot be settled peaceably, if both parties really desire peaceful settlement, while there are few causes of disputes so trifling that they cannot be made the occasion of war, if either party really desires war. The matters in dispute between nations are nothing; the spirit which deals with them is *everything*." That must be considered the first principle of the prevention of war. The spirit of peace must be created. But we shall not create it by permitting every savage desire for increased power and possession to remain unrestricted, by preserving the spirit of subjection and spoliation, and by desiring to restrict such desires for war only at the moment of the impending explosion by prescriptions for peaceful, arm-chair discussion. We shall bring this spirit into being by strengthening the present mutual dependence of States through an increase of common effort, by subduing the normal external and internal intercourse of the nations to a sane, healthy routine instead of attempting to mitigate the conflict itself, so that these controversies may lose their threatening character because of the strengthening of the spirit of communal intercourse by reason of the common interests involved, which in the case of conflicts fanned into flame by the anarchy of to-day always degenerate into a struggle for existence. It is international co-operation which will lead the nations to this communal organisation, which may be



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the granite foundation for the idea of a league of peoples. This international co-operation was already developed to a very great extent before the war.

World intercourse and world trade produced directly an ever-growing net of relations and interests between the nations. These material connections involved a developing common spirit growing stronger every day. Public and international law was evolved. Scientific, social and ethical questions were studied and regulated internationally. All these necessities created their own institutions. The number of international offices, central bureaus, congresses and mutual activities grew from day to day. The beginning of an international administration could be clearly recognised, and there developed, in a very decisive manner, a sort of spiritual community throughout the world as a natural consequence of a progressive information technique, a super-national manner of reflection and perception. All these developments would have had a greater significance for the peaceful evolution of international relations if this self-evolved co-operation had been consciously required by humanity and completed in every detail of its organisation. As this did not happen, anarchical tendencies, with their consequent struggle for supremacy and expansion, together with the growth of imperialistic and militaristic ideas, dominated the situation. These tendencies administered the *coup de grâce* at a critical moment.

A conscious demand for international co-operation, above all things, would have commenced to remove simultaneously those limitations which hinder the exchange of commodities and of the produce of labour. All agreements for the facilitation of trade and intercourse must lose some of their significance so long as the means of trade are fettered by tariff barriers. Free Trade is the fundamental principle of international co-operation, and international co-operation is the hypothesis of an organisation of States

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which would be able to abjure all war and solve controversies in a rational manner. Free Trade is consequently the foundation of the peace of the world.

An institution which will found a world peace must therefore demand an increased concentration on all proposals tending to regulate an orderly, common life. It must consider carefully, therefore, how to bring Free Trade into universal practice. It must first of all take care to provide all the nations with the necessary raw materials for existence, to regulate and distribute them internationally. It must be no less careful to keep clear the road to the markets for the manufactured materials.

If such a free distribution of commodities is effected under the authority of an international regime, one of the principal incentives to conquest and annexation falls to the ground. Humanity will then develop first in a proper manner those institutions which shall serve the organised life of the community of the world and thereby construct that world in which war will find no place.

Free Trade, which secures an existence to all, is peace.

It is an important omission of the League of Nations of 1919 that it has not made Free Trade and co-operation the basis of its constitution, but has confined itself to resolutions which can only be useful in a symptomatic treatment of international ailments.

To explain this omission it is asserted that the covenant came into existence as a consequence of the most horrible war which humanity has ever seen. But it bears not only the impression of a constitutional misconstruction in the form of a peace treaty which has made the work of reconciliation more difficult because of dissatisfaction and hatred, but by the creation of a number of little States envious of one another because of their newly won independence. The League of Nations has also to suffer from the after-effects of the war, which paralyse the movement

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towards co-operation, formerly so manifest. All the happy plans for the organisation of peace are sabotaged and in many cases destroyed. The mechanism of the world appears to-day like the works of a watch which have been disarranged by unskilful hands.

The theoretical possibilities remain of course, but everywhere the war has made their employment and utilisation very difficult, and often, indeed, entirely problematical. Everywhere frontiers have become unwieldy, everywhere countries are closing their doors to foreigners, to foreign goods and foreign ideas. Foreign conceptions have again received a significance such as they only possessed in long past historical periods, in times when intercourse was completely undeveloped. This ultra-nationalism appears so strongly implanted that even nationals of the same State are regarded as foreigners outside their own birthplace or place of residence, and as such are expelled. Province opposes province, community opposes community, the country is in opposition to the town, and often the suburb opposes the central authority. Inland the shortage of houses and provisions has been the cause of this insularity; between the States which have been at war there exists a hatred which forbids intercourse; between the former belligerents and the neutrals lies the fear of an invasion of the countries which have remained intact by the hungry and destitute inhabitants of the war areas. The shortage of coal, wagons, locomotives and ships consequent on the intensive consumption of the war period has produced a paralysis of all possibilities of inter-connection in the world, which is increased by material impoverishment, by the weakening of the power of production, and by an increase in the power of consumption. Express trains still rush through the Continent, liners still sail the seas, but their number is less, and smaller is the number of those who possess the means of using them. And apart from



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the material need, the use of the means of intercourse still available is made difficult by circumstantial formalities. Foreign and inland travel permits are necessary, which are not given to everybody. Nearly every two hours a double frontier crops up where humanity and its luggage is "controlled" to a painful extent. Where hatred does not bar the way, the depreciation of money in most of the countries involved in war forms an insuperable barrier in trade with those countries which can maintain their exchange at par.

Therefore the League of Nations as it has been evolved from the Treaty of Versailles is only a beginning. The most important fact is yet to be carried through. We dare not rest content in the belief that we *possess* the League of Nations and that *now* we are protected against war. No; the League of Nations of to-day is not at all self-sufficient, but it is everything when regarded as a starting-point. It must first remove the tremors which the war has left in its train and once more bring the confused business of the world into full blast again. This it can only do by means of an international institution which will introduce Free Trade and intercourse and maintain it entirely supreme.

### **Commercial Policy and Peace.**

**By EDOUARD BERNSTEIN,**  
**Member of the German Reichstag.**

*Written in 1916.*

WHEN children separate after a quarrel they may always be heard crying out to one another: "I will never play with you again." No grown-up person takes the announcement seriously, knowing well that on the very next day the little ones will be contentedly playing together again.

Similar threats are exchanged to-day between the great nations which are waging the most murderous war which the history of the world has ever chronicled. But these threats relate, not to future play, but to the future exchange



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of goods. The more intense the bitterness of feeling aroused on either side by the increasing brutality of the methods of warfare, the more numerous and vehement grow the voices which, in every nation or group of allied nations, urge the future closing of their markets to their opponents.

To what extent are these threats likely to be fulfilled?

That is a very grave question; for it is one which is closely bound up with, if, indeed, it does not lie right at the heart of the whole question of the future relations of the peoples of Europe. For in our age the extent of the trade between nations fundamentally influences the character of all their other relations. Disputes over questions of trade policy have repeatedly exercised the direst influence on the whole political relations, and, in the highest sense of the words, on the whole civilised intercourse of nations. We need only recall, in this connection, the effect exercised by the Franco-Italian tariff-war of its day on the relations of the two Latin nations. To how great an extent has not Austria-Hungary's commercial policy toward Servia contributed to produce that ill-feeling between the Dual Monarchy and her little neighbour, which, if it did not cause, at least offered the occasion for the frightful catastrophe which is now devastating Europe? If it would be incorrect to attribute all national antagonisms exclusively to economic causes and incitements, if questions which are only very indirectly connected with economic antagonisms, such as the lust of power, religious quarrels, a sense of injustice, may set nation against nation and drive them into war, still it is a fact that either real, or popularly considered real, antagonisms of economic interest almost invariably excite political prejudices and hatred.

This is why, in all countries, the bulk of the manufacturers of armaments belong to the Protectionist party. Very often there has even been identity of material interests

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between them : the Protectionist industrial magnates have had a financial interest in the increase of armaments. In certain countries the beneficiaries of agrarian protection form the majority of the military caste which is directly interested in the continual growth of armies. Of great significance also, on account of the influence it exercises on the minds of those who have no material advantage to gain by war, is the intimate connection between the ideals of war and of Protection. The policy of Protection, excepting where it is merely used as a means of abolishing internal tariffs by establishing a single national customs-tariff in their stead, or where it is designed only for the encouragement of infant industries, is always inspired by the theory of a permanent antagonism between the economic interests of nations. The Protectionist literature of the present day is, universally, a Chauvinist national literature, which exaggerates the conflict of national interests and minimises, where it does not absolutely ignore, all community of interest between them. It treats the nations as individual rivals, where the gain of one is the loss of the other, and latent enmity is their normal relation. The policy of Protection always has in the background the tariff war, and a tariff war may always degenerate into actual war. In Germany, the constant references in the Protectionist Press to the conflicts which were likely to arise out of the impending necessity for renewing her commercial treaties, contributed very materially to produce that state of tension in the popular mind which was just what the promoters of war required in the summer of 1914. The kinship between the spirit of Protection and the spirit of war may be seen even within the Socialist movement. To speak of Germany only, we note that that Socialist monthly which systematically preached Protection for years before the war is now emulating the sworn advocates of the war.

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And as Protection makes for war, so war makes for Protection. Politicians who energetically opposed the latter before the war, now that their views with regard to the war have changed, are beginning also to alter their views with regard to commercial policy, and are preparing to join the Protectionist camp.

If we turn to the political influence of Free Trade, its intimate connection with the peace movement is so well known that it should not be necessary to dwell upon it. Nevertheless, so many misconceptions on the subject are now current that it seems essential to make a few plain statements as to the actual facts.

It is often pointed out that the one Free Trade country, England, has waged more wars than the countries which have not adopted Free Trade. And if those who make this assertion do not go so far as to attempt to show that Free Trade has been responsible for these wars, yet they deduce from the circumstance the theory that Free Trade is incapable of obviating wars. This method of argument proves as little as did the celebrated contention that a certain cure for consumption could have no efficacy because it had been proved that a youth who had taken the cure had afterwards failed to pass his examinations.

The wars which England has waged since she adopted Free Trade in the middle of the nineteenth century have not been the outcome of her commercial policy, but the outcome of a Colonial and Imperial policy which the Free Trade party always opposed. The only European war which England has waged from that time until the outbreak of the present war—the Crimean war against Russia—had the advocates of Free Trade, Bright, Cobden, and their sympathisers, as its strongest opponents; these men preferred to stake their popularity and to forfeit their seats in Parliament rather than to vote a penny towards the prosecution of the war. Naturally a distinction must be drawn



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between convinced Free Traders and opportunist Free Traders. The victory of Free Trade in England was brought about in the middle of the nineteenth century by the fact that Robert Peel and his followers, after they had subscribed to the Repeal of the Corn Laws in 1846 on the ground of expediency, were thereupon compelled, as a natural sequel, to make further concessions to the doctrine of Free Trade without, however, necessarily accepting it in all its bearings. Further, the England which then embarked upon the policy of Free Trade was hampered with the inheritance of a commercial and colonial policy governed by the mercantile system, and the liquidation of this inheritance was no simple matter which could be settled in a day. It is no cause for wonder, then, if the practice of Free Trade in the economic sphere has not been immediately followed, in every respect, by its natural political consequences. This was the less possible in that the individual State can no more be independent of its neighbour States than the individual man can be independent of his fellow-citizens : both can only raise the level of their conduct above that of their fellows to a limited extent.

But apart from all this, the Crimean war, which was anything rather than a war dictated by considerations of commercial policy, was, till 1914, the only war which England has waged against a European State. At most the Boer war might be added, since, though not waged against a European State, it was directed against a people of European extraction. But the responsibility for this war, on the English side, lay with a politician, Joseph Chamberlain, who already represented a reaction against Free Trade, and it occurred, moreover, during a period of growing Protection. When, in 1906, the party of Protectionist Imperialism was beaten in England, the Free Trade party which entered into power made amends for the wrong done



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to the Boers, and restored to them the full rights of a self-governing nation. How this affected England's position in South Africa recent events have shown.

Free Trade, as to its political tendency, may confidently submit to the test, "By their fruits ye shall know them," when that test is reasonably applied. That is to say, a distinction must be drawn between the effects of its influence and its material results, and in appraising the latter the strength of opposing forces must not be overlooked. Free Trade is no magic word which causes iron-bound doors to fly open at a blow. It is a social force which works by example, and its results depend upon the persistence with which it is applied.

The main lines of national policy are determined by the play of many forces, whose relative strength changes with the relative power of different classes of society and under the influence of external circumstances. No one force, therefore, can be held responsible for its transformations. What can be done, however, and what as politicians we ought to do, with regard to each individual force, is to trace its particular part and operation in this general play of forces. In the case of Free Trade, considered as a political force, we can only do this by studying the history of the Free Trade parties. And this history shows us these parties everywhere as Peace parties, and, indeed, the more consistently they applied the policy of Free Trade the more energetic and consistent champions were they of the policy of Peace. A demonstration of the truth that a Peace Policy is the necessary outcome of Free Trade.

They who desire to tear down the tariff walls between nations must also attack the inequalities in the privileges of States and Peoples, which furnish the occasion for wars and make them appear profitable to the victor. Where there are no tariff walls the striving for the acquisition of foreign territories loses its power of popular attraction,

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except where the liberating of oppressed fellow-peoples is in question.

In his famous speech on Free Trade, delivered in Brussels on January 9th, 1849, Karl Marx mockingly quotes the exclamation of an English Free Trader : "Free Trade is Jesus Christ—Jesus Christ is Free Trade." The exaggeration of these words is obvious, nevertheless they contain a germ of truth. To those men to whom Free Trade was more than a temporary gain to English manufacturers, to those to whom it was a permanent principle of world-policy, it appeared as a measure by which could be realised the ideal of harmony in all international relations, and this ideal corresponded to the religion of "Go ye and preach the gospel in all lands." Only, as Free Trade did not affect the great class-antagonism between the propertied classes and the modern proletariat it did not suffice, alone, to establish harmony among the Peoples, and this Karl Marx shows in a very striking manner in the speech to which we have alluded. But apart from this the speech condemns Free Trade too much, in the light of the time, as a self-interested movement of manufacturers and their supporters, for us to accept all its statements to-day as a just estimate. When Friedrich Engels republished the speech in 1884, he made the well-considered comment in his preface, that it belonged "to the same period in the author's development as his *Poverty of Philosophy*." A clear indication that it was not to be regarded as the last word on the subject.

If the Free Trade movement of the first half of the nineteenth century in England was led in the main by manufacturers and great merchants, and the majority of its influential representatives were also advocates of the doctrine of *laissez-faire* in social policy, this temporary coincidence might, at the time, make Free Trade appear to be a matter with which the middle classes alone were

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essentially concerned. But this is only true to this extent, that Free Trade is not a specifically working-class interest. It is not the special interest of any particular class of society, though, regarded as a measure of domestic policy, it may sometimes advance the interests of particular classes rather than that of others, may injure the peculiar interests of certain classes, and may be a matter of indifference to certain others. But it is not merely a measure of domestic policy. It is a principle of world-policy, and as such it transcends the interests of individual classes. It aims at continually enlarging the commercial relations between nations, at developing closer and closer ties between People and People, at the better organisation of the international division of labour, and for these reasons it is of necessity a Policy of Peace. It is due to this essential connection between the two policies, that in no other country has the Peace Movement been so powerfully represented, both in respect of the number of its adherents and the influence of its ideas, as in England, where Free Trade was first introduced. Those Parliamentarians in the England of to-day who, even during the present war, speak the language of Peace with an intrepidity which is unknown on the Continent, W. P. Byles, Leonard Courtney (now Lord Courtney), Robert Reid (now Lord Loreburn), and others, are distinguished spokesmen of the English Free Trade party.

It may seem a paradox that in England, which has had Free Trade for six decades, it should have been necessary to have a Free Trade party at all in recent years. Yet an opposition movement has raised its head there at different times, and under the most various forms, against which it has been necessary to defend Free Trade. Thus, in the eighties of last century, as a result of increased tariffs in the United States and in several of the Continental States of Europe, and of the trade depression from which Eng-



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land was then suffering, a timid Protectionist movement, disguised as a movement for "Fair Trade," was a good deal to the front. At that time—1887—this sentence—which has been successively quoted, as characteristic of the English spirit, by German authors who would wish to be classed as responsible—is said to have appeared in the Conservative *Saturday Review*: that it was "an unquestioned fact that if Germany did not exist every Englishman would be so much the richer."

The *Saturday Review* which enjoyed a considerable political influence in the time of Lord Beaconsfield has long since lost it. All the same, in 1887 it was still a paper which was not edited by idiots, and it is therefore more than doubtful whether this was an editorial pronouncement or was merely contained in some communication of a kind to which English weeklies open their columns with a rather large hospitality. In any case, it could only have proceeded from the brain of a man whose mind had been disordered by the wild demonstrations of the unemployed in Trafalgar Square in 1887, which had led to the destruction of many shops and finally to looting. At any rate, the Fair Trade Movement fell to the ground, and, after an interval of some years was succeeded by the movement for an Imperial British Customs Union, which again was a tentative movement towards Protection, for England could only enter into a customs union with her self-governing colonies if she herself established a Protectionist tariff. But this time the agitation was carried on with such a vast expenditure of money and by pamphlets of such compelling dialectic force that the triumph of the political coalition which supported it did not lie beyond the bounds of possibility. However, at the election of 1906 this coalition suffered a crushing defeat, brought about by the unanimous opposition of organised labour throughout England. The Liberal party, which had inscribed the maintenance of Free



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Trade on its banner, returned to power with an overwhelming majority, and one of the first acts of the new Campbell-Bannerman Cabinet was the reduction of the Naval Estimates by about £2,000,000, a measure which, it was hoped, might lead to a general limitation of world armaments. Although this result was not attained, a few years later the Liberal Government, in face of fierce opposition from the House of Lords, carried the Lloyd-George Fiscal Reforms, one object of which was to close the door for ever on Protection. But a tragic irony of fate decreed that, under this very Government, England entered, in August, 1914, into the world-war which was let loose by the Protectionist Continent, and which, as it proceeded, has aroused such intense bitterness in both camps that it now threatens to become the foster-parent of Protection.

In both camps we meet with serious preparations to follow the war with arms, which must some day come to an end, with an interminable tariff war. While in Germany and Austria conference after conference is held to establish a Central European customs union, which Bulgaria and Turkey should be obliged to join, in the circle of the so-called Alliance of the Four Powers, a settlement is being considered under which each Power would bind itself not to enter, without the previous consent of the others, into any commercial treaty with the Central Powers. As two of the Allied Powers are decidedly Protectionist, this, in itself, would force England into the way of Protection. But even in England the Protectionist movement has been greatly strengthened, not on account of economic considerations, but rather, we must say in this case, in opposition to all economic considerations. The driving-force now is not pressure of competition—for England's exports during the last decade before the war had shown a brilliant increase—but passion: the conviction which has taken pos-

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session of the public mind that, even after the end of the war, for many years a friendly interchange of goods with Germany will be an impossibility. Therefore in the forefront of the Protectionist movement we see an endeavour to render England independent of Germany with regard to certain articles, in the supply of which, thanks to her high development of the particular industries, Germany had hitherto enjoyed a virtual monopoly; and, consequently, the proposal to levy import duties after the war on certain goods of German origin is being seriously considered.

It would be beyond the scope of this article to discuss the economic reactions which would result from this and similar projects. We are only dealing here with the influence which they would exercise on the political and general relations of the peoples. That this influence would be extraordinarily pernicious is beyond doubt. These projects would long delay and hinder the moral process of healing which ought to begin at the close of the war. They would mean the prolonging of the war under another form, they would be widely regarded as a transition stage to some fresh war, and in each group of nations they would set up the work of poisoning the public mind against the peoples of the other coalition. They would place all manner of restrictions in the way of the resumption of the international intercourse of the representatives of science, art and literature, an intercourse which had been developed to so high a point just before the outbreak of war. And they would inspire anew old prejudices which, before the war, had, in some cases, disappeared from the world, and in others sunk into insignificance.

Therefore all those who see in the intimacy of international intercourse a powerful lever for the progress of civilisation must raise a warning voice against these proposals. They must not allow themselves to be deceived by glowing pictures of the advantages which will ostensibly

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result from these projects, but must teach those who incline to support them that any such advantages would only benefit a small minority of the fortunately situated classes, while the majority of the people could expect nothing but material and social injury.

No time must be lost in calling into being a counter-movement to these schemes, but it is not too late to do so. For all the decisions which have as yet been reached in their favour are, after all, only provisional. The final word will only be spoken at the Peace negotiations. However regrettable the postponement of these may be from all other points of view, for the question under discussion it is an advantage that there should still be time to enlighten men's minds as to its far-reaching importance.

May this time be well utilised, and in particular let us, on either side, endeavour to impress upon our own people that any departure on the part of one group of nations from the principles of fair exchange inevitably provokes a corresponding movement on the part of the opposite group, and that commercial policy will, for a long time, exercise a profoundly important influence upon all international relations.

**SIXTH SESSION**

*Thursday, October 7*



SIXTH EDITION

1900

## SIXTH SESSION - THURSDAY, OCTOBER 7

*'Chairman*—Sir HUGH BELL, Bt., C.B.

### *SUBJECT:*

### **The Danger of Protection in Great Britain.**

THE CHAIRMAN: Our meeting draws to its conclusion, and a couple of hours hence the International Free Trade Conference of 1920 will have come to an end. I don't think we can regard it as having been other than a very valuable proceeding which was initiated by the Cobden Club in inviting Free Traders of Europe to assemble here in order to confer together.

For a matter of six years you may practically say there has been no such thing as economics. The conditions of warfare have overridden all those principles of economics which were accepted, I think you may say universally. We have had to put up with a state of siege, which is very different from the order of economic life. We used to think that it was extremely desirable that the revenue of a State should suffice for its expenditure. We abandoned that in 1914, and we are very far from getting back to that happy position. We have destroyed millions of wealth; if I should say forty thousand millions I should not be far off the mark. There is only one way, in my judgment, in which we can retrieve the position from which we have drifted, and that is by proceeding as rapidly as possible to reintegrate the wealth which has been destroyed.

We Free Traders must have read the proceedings of the Economic Conference in Brussels with almost undivided satisfaction, for almost every speaker abounded

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in our sense. It is not inopportune, then, that those of us who hold that free intercourse between man and man is the best method of obtaining the object which we have in view, should hold this Conference now. It would be much to be regretted if we allowed it to rest where it will rest when this afternoon's proceedings are over, and I am glad the suggestion has been made that when the position of affairs will be more clearly perceived we shall meet again to consider once more where the economic world stands.

No one is going to pretend that Free Trade is a panacea to cure all our evils. No one is going to say that if to-morrow the whole world abolished all tariffs and custom houses and let goods come in from one country to another without let or hindrance, all our troubles would be at an end. No one would say that. But I think we all would say that if these obstacles were removed it would be a much more easy task to bring about that intercourse which we all so heartily desire. If the Conference has brought this home more completely to the minds of those who have taken part in it; if it has made the world at large aware that a considerable number of thinking men and women have given great attention to the problems which call for solution; if that has been the effect of the Conference; then indeed we have not met in vain. I hope we shall go back to our places each one of us satisfied that on further examination of our beliefs we are more firmly convinced and more resolved to the best of our ability to bring home to our fellow countrymen the force of these truths, upon which we believe will ultimately rest the well-being of mankind.

There is one great satisfaction that Free Traders can feel, and that is that not only do their beliefs square with economic truth, but also that they are founded on a sound ethical basis. I think we may proclaim louder and more persistently the truth of the motto, which unless

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my memory deceives me, adorns the paper of the Cobden Club, "Free Trade, Peace, Goodwill among Nations."

### **British Free Trade: Present and Future Dangers.**

**By Mr. F. W. HIRST.**

I WAS asked by my colleagues on the Committee of the Cobden Club to give you a brief sketch of the dangers which menace Free Trade in its island home and fortress. What are they, and what is the atmosphere in which Free Trade as a doctrine, a policy and a system finds itself now that a state of peace, involving a renewal of commercial intercourse, is officially declared to have been established?

Let me first of all distinguish between Free Trade in the broad and in the narrow sense.

By Free Trade in the broadest sense is meant complete freedom of commerce and intercourse in so far as roads, railways, ships, and other facilities permit, not only between all countries, but between all individuals in all parts of the world. This is the principle of the division of Labour, the basis of the new philosophy of Free Trade (as discovered to the world by Adam Smith in the year 1776), carried to its logical conclusion. That is the ideal, a world free from passports, tariffs, or any other governmental interference, except of course legitimate regulations for the prevention of accidents, discord, and for the protection of health. Combinations by employers (e.g. owners and managers of tea plantations) to restrict production in order to raise prices and profits, or combinations of workmen to raise prices and wages, or combinations of both to raise prices, profits and wages, offend against the general doctrine of Free Trade and competition, and are adverse to the principle of the greatest happiness of the greatest number both in the country where they are practised and in those with which it trades.



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Owing perhaps to the state of bankruptcy or semi-bankruptcy brought about by the war, we have at this moment the remarkable spectacle of a sort of partnership (a very quarrelsome one, it is true) between Government and Capital in particular industries, sometimes with the concurrence of Labour. I wish we had a Lettish Free Trader here from Riga to describe the combination of flax growers with the bankers and the Government for the purpose of fleecing foreign manufacturers of flax. But I have no doubt that other illustrations will occur to many of those present.

The most important and oppressive example is, however, I am sorry to say, furnished by Great Britain. Among other economic horrors which have grown up like mushrooms or rather toadstools in the war soil are controllers of all sorts and kinds—controllers of pigs, ships, bacon, wool, &c., &c. Some have been abolished, others are still trying to justify their existence by speeches or by regulations interfering with free markets and free exchanges. Most of their devices are primarily injurious to this country. But one of them deserves special attention, for it is not only a flat violation of Free Trade principles, but it is also contrary to the spirit of English law and even to the comity of nations. I mean the arrangement, or compact, between the British Coal Controller and the Coal Trade, by which the price charged for bunker and export coal is more than double the price charged to British consumers. Under this system coal exports are restricted to a quarter or a third of their normal amount, the demand for coal for bunkers and foreign countries is unsatisfied, and the huge profit (say 100 per cent.) goes to swell the Excess Profits Duty. The claim of the miners was that the Treasury had no right to tax the coal trade in this special manner. They did not ask for the abolition of control and of discrimination, but claimed that the

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booty should be divided between the coal miners (an extra two shillings a day in wages) and the domestic consumer in a reduction of the price of domestic coal—which last would have made the international injustice even more glaring. At the Brussels Financial Conference last Thursday, Signor Quartieri (one of those who recently saw his mills occupied by his employees) denounced the rich nations (he should have said the unscrupulous governments of impoverished nations) for attempting to lighten their own Budgets by imposing almost insupportable burdens on the Budgets of poorer countries through discriminatory prices and restrictive export duties on raw materials. It was a case, said Signor Quartieri, of the rich man taking the bread out of the mouth of the poor; and one of the first tasks of the League of Nations ought to be to devise means of countering the construction of these artificial barriers and the exploitation of monopolies by countries fortunate enough to possess them. There was a wave of selfishness passing over the world, and the business of the League was to withstand it.

Mr. Wilson Harris, the *Daily News* correspondent at Brussels, says there is only one opinion among foreign delegates on British profiteering in export coal, which is putting almost insurmountable obstacles in the way of any recovery for famished or half-famished countries like Italy or Austria, and is also, of course, hampering the whole of our foreign and export trade, besides introducing ill-feeling into our relations with France, Scandinavia, Holland, and many other countries which were always accustomed before the war to rely upon us for coal. What would Lancashire think and say if the cotton growers of the Southern States charged Lancashire double what they charged the home manufacturers for raw cotton?

This brings me to the public policy and practice of the

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present Government and Parliament. Before the war Free Trade in the technical sense seemed quite secure in this country. On a few fiscal articles like beer and cigars produced both at home and abroad the Customs and Excise duties nearly corresponded. On the vast majority of imported articles—food, raw materials and manufactures—no tax was imposed. The Liberal Government was regarded as absolutely orthodox on Free Trade. There was a large majority for Free Trade in the House of Commons. The Conservative and Unionist party had been three times defeated since Mr. Joseph Chamberlain raised the Tariff Reform issue in 1904. There was no popular enthusiasm for Colonial Preference, and the Tariff Reform League had lost most of its supporters. Cobdenites like Lord Welby were far more afraid of the growth of armaments and public extravagance than of any direct attack upon fiscal orthodoxy. Some of us thought even then that the policy and expenditure of Mr. Asquith and his Chancellor of the Exchequer, Mr. Lloyd George, represented a dangerous mixture of ill-disguised Imperialism and half-baked Socialism.

The Great War came in August, 1914, and by May, 1915, in order to get rid of Opposition criticism, Mr. Asquith formed a Coalition. He dismissed half his colleagues and put Unionists in their places. It was openly stated that neither party abandoned its principles, but that all domestic controversy was to be suspended during the war.

This understanding was not carried out. As the strain and bitterness of war increased all the forces of reaction grew. The Unionist Ministers became more and more eager for the suppression or restriction of personal liberty and for the imposition of Protectionist embargoes on trade. Mr. Asquith tried hard to propitiate this sentiment at the expense of Liberalism. He had previously introduced Dora, which deprived citizens of the benefits of Habeas



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Corpus. After the first Coalition he explained that he had no fixed principles forbidding him to apply Conscription or Protection, and before he was finally ejected from office at the end of 1916 he had imposed Conscription for the first time in English history, and had introduced and carried three high Protectionist duties—on motor-cars, clocks and watches, and matches. These new Protective import duties, the first imposed since the abolition of the Corn Laws, still remain, and are of course very embarrassing to Free Traders, many of whom out of party loyalty supported the Budget of 1916.

I don't despair of the future of Free Trade in this or in other countries. Otherwise I should despair of justice, honesty, truth, and science. But even believers in progress have to recognise that, though physical science and mechanics advance uninterruptedly, human society has many ups and downs. Moral and political standards rise and fall. Moral and political energy accumulates or evaporates. Even economic invention is by no means secure. In spite of mechanical progress a bad Government may in a few years reduce a flourishing nation to bankruptcy. To-day half Europe is starving, and most of the remainder is on the verge of bankruptcy. We have learnt that representative institutions do not safeguard the most intelligent peoples, because even the most intelligent are very stupid and easily misguided by unscrupulous politicians. A successful demagogue can do as much mischief as an autocrat. A tariff skilfully managed supplies a huge corruption fund. The sale of customs duties and embargoes is as lucrative as the sale of titles. Here you have one of the main reasons why so few democracies enjoy Free Trade. The self-governing British Colonies which pride themselves on being more democratic than we are have all adopted Protection.

Apart from corruption the two chief dangers to Free



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Trade in this and (I suppose) in other countries are Imperialism and Socialism, which may easily combine in the form of a Bureaucratic State. To the individual who loves his liberty and asks for freedom to live and work as he pleases—to go where he likes—to sell to whom and to buy from whomsoever he likes—it matters little whether the Bureaucratic State has an Emperor or a President. In many of the new democratic republics (including Soviet Russia) there is less personal liberty and less freedom of business and trade than there was in Czarist Russia or Imperial Germany before the war.

The Liberal Party in Great Britain never faltered on the question of Free Trade from 1846 to 1914. It is now divided into three sections. The first, which includes a large number of Coalition M.P.'s, takes its policy from Mr. Lloyd George. The second, including most of the so-called "Wee Free" Liberal M.P.'s, acknowledges Mr. Asquith as its leader. The third section, consisting of most unofficial Liberals, adheres as firmly as ever to Free Trade and denies the right of official Liberal leaders to compromise this or any other of the causes with which the historical Liberal Party has been associated.

After the Armistice and the General Election of 1918 it was expected that Mr. Lloyd George would ripen into a full-blown Tariff Reformer; and for a time most of the embargoes and monopolies started by the Board of Trade during the war were continued. But in the spring and summer of 1919 these embargoes were sharply attacked as contravening the Common Law and Statute of Monopolies; and they were successfully challenged in the courts. Mr. Lloyd George thereupon withdrew nearly all of them, but announced an Anti-dumping Bill and a Key Industries Bill for the protection of such industries as from time to time his Administration might desire to favour and foster. He has also acquiesced in the principle of Colonial Prefer-

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ence, which was embodied in the last Budget. The result of these betrayals is that the United Kingdom can no longer boast of the complete system of Free Trade which it enjoyed from 1860 to 1914. It is also threatened by a Ministerial project of administrative interference with imports, which would be even more mischievous than a tariff.

On the other hand there are some considerable grounds for hope. In the first place, all classes except the richest of the profiteers are up in arms against the high prices caused by war scarcity, by the inflation of credit, the debasement of the currency, and by the heavy taxation of sugar, tea, coffee, tobacco, matches and other articles. They know that it is the object of Protection to raise prices at home.

Secondly, almost all business men are furiously opposed to Government control of trade, and are therefore more appreciative than ever they were before of the enormous advantages of freedom. Thirdly, many of our staple trades, including of course the cotton and woollen industries, depend so largely upon exports and upon a low cost of production, that they can hope for nothing but loss from the introduction of a protective tariff. Consequently there are, I am certain, more Free Traders in the Conservative Party than before the war. With the exception of the glass workers, practically all the Trade Unions are for Free Trade, and the same may be said of all the local Liberal Associations.

The other day I asked one of the largest merchants in the City whether the City was more favourable to Imperialism and Protection than before the war. His reply was: "We are all sick of Imperialism because of the enormous expenditure and taxation which it involves. As to Protection, its experience of Government control has made the City more favourable than ever to Free Trade."

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This of course does not mean that the present Government could not carry an Anti-Dumping or Key-Industries Bill through the present Parliament, or that they could not add to the number of protective and preferential duties in the next Budget.

If there is widespread unemployment they may do any of these things; for when there is trouble a demagogue politician usually adopts a quack remedy which will aggravate the disease. So far, however, as revenue goes everybody who understands finance has come to see that the huge sums required to pay for war debt and pensions must be raised mainly by direct taxation. The graduated Income Tax and Death Duties, which were the means of establishing and preserving our Free Trade system, have now been transplanted to many countries which ten years ago knew little or nothing about them. Rich men who want their taxes reduced are beginning to realise that they have far more to hope from public economy than from a customs tariff.

The Contessa Lisa Scopoli, Sir George Gibb, Mr. Henry Vivian, Dr. Clarke, Mr. J. C. Haig continued the discussion; Mr. Hirst replying at the close.

Lord Sheffield then put the following resolution to the Conference, and it was carried unanimously :

“That this Conference, in view of the serious and even critical economic situation of all countries throughout the world, affirms the urgent necessity of universal Free Trade, and presses upon those countries which are not prepared for such a policy to recognise at least the need for a large relaxation of the present fiscal and other obstructions to international free commercial intercourse, which is one of the most vital necessities of the economic rehabilitation of the world.”















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